

CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management



Diploma Thesis Title:

Analysis of strategic decisions and their
impact on prosperity of
PATOK, a.s.,

This Diploma Thesis has been written and defended at the Université Catholique de Lyon in France under the Double Degree Agreement between the Czech University of Life Sciences Prague, and the Université Catholique de Lyon. In accordance with the Double Degree Agreement, this Diploma Thesis is fully recognized as part of the MSc programme study at the Czech University of Life Sciences Prague.

Author: Patrik Rais

Diploma Thesis Supervisor: David Russell

Université Catholique de Lyon, 2014

Analysis of strategic decisions and their
impact on prosperity of
PATOK, a.s.,



Author: Bc. Patrik Rais
Supervisor: David Russell
Lyon 2014

Declaration

I declare that I have written the diploma thesis of “Financial Analysis of the Cloud Computing Market” by myself under the supervision of David Russell. I have listed and mentioned all quotations and resources I have used in this thesis.

In Lyon, 12 July 2014

Bc. Patrik Rais

Acknowledgement

I would like to thank my supervisor David Russell for his helpful and professional assistance with my diploma thesis and for the fact that she started my interest in strategy. A big acknowledgement goes to my family for their support. Last but not least, I want to thank my former portfolio analysis group for the experience I gained with analyses through several projects.

Tables of Contents

I. Introduction.....	6
II. Literature review	9
1. Strategy and strategic decision	9
2. External environmental scanning.....	13
2.1. Macro environmental scanning.....	13
2.1.1. Dealing with uncertainty.....	13
2.1.2. Prioritization	13
2.1.3. PEST analysis.....	14
2.1.3.1. Economical analysis.....	15
2.1.3.2. Political analysis.....	17
2.1.3.3. Social analysis.....	17
2.1.3.4. Technological analysis.....	18
2.2. Industry analysis.....	18
2.2.1. Competitive forces.....	21
2.2.1.1. Threat of new entrants.....	20
2.2.1.2. Threat of substitutes.....	22
2.2.1.3. Bargaining power of buyers.....	22
2.2.1.4. Bargaining power of suppliers.....	23
2.2.1.5. Rivalry between established competitors.....	25
2.2.1.6. Impact of five forces analysis.....	26
2.2.2. Intra-industry analysis.....	27
2.2.2.1. Strategic groups.....	27
2.2.2.2. Competitor analysis.....	28
2.2.2.3. Segmentation.....	29
3. Internal analysis.....	32
3.1. Resourced based approach.....	32
3.2. The value chain.....	34
3.3. Financial analysis	38
3.3.1. Profitability.....	39
3.3.2. Liquidity.....	41
3.3.3. Activity.....	42
3.3.4. Leverage.....	44
4. SWOT analysis.....	46
III. Empirical observations.....	53
5. Characteristic of enterprise.....	53
5.1. Basic information.....	53
5.2. Subject of business.....	53
5.3. Company profile.....	53
5.4. Vision and mission.....	54
5.5. Product portfolio.....	54

6.	External environmental scanning.....	56
6.1.	Macro environmental scanning.....	56
6.1.1.	Economical analysis.....	56
6.1.2.	Political analysis.....	58
6.1.3.	Social analysis.....	59
6.1.4.	Technological analysis.....	60
6.2.	Industry analysis.....	61
6.2.1.	Competitive forces.....	61
6.2.1.1.	Threat of new entrants.....	61
6.2.1.2.	Threat of substitutes.....	63
6.2.1.3.	Bargaining power of buyers.....	64
6.2.1.4.	Bargaining power of suppliers.....	65
6.2.1.5.	Rivalry between established competitors.....	66
6.2.1.6.	Impact of five forces analysis.....	67
6.2.2.	Intra-industry analysis.....	68
6.2.2.1.	Strategic groups.....	69
6.2.2.2.	Competitor analysis.....	70
6.2.2.3.	Segmentation.....	72
7.	Internal analysis.....	74
7.1.	The value chain.....	74
7.1.1.	Service.....	74
7.1.2.	Marketing.....	75
7.1.3.	Procurement.....	76
7.1.4.	Human resources.....	76
7.1.5.	Information technology.....	78
7.2.	Financial analysis.....	78
7.2.1.	Horizontal and vertical analysis of indicators.....	78
7.2.2.	Profitability.....	91
7.2.3.	Liquidity.....	93
7.2.4.	Activity.....	94
7.2.5.	Leverage.....	95
7.3.	Resourced based view.....	96
8.	SWOT analysis.....	99
IV.	Discussion.....	105
V.	Conclusion.....	106
VI.	References.....	110

I. Introduction

As the topic of my diploma thesis, I picked analysis of strategic decisions and their impact on prosperity of PATOK, a.s., because making strategic decisions is becoming more and more important in the age of globalization. All economies of the world are mixed nowadays and it is necessary to take advantage of this. Strategic decisions are a way to achieve success. Also, I have a personal interest in this topic because I would like to set up my own business and this project can help me to better understand all manner of problems, which are hidden in this field of business.

The key to success is in the strategic management. Companies have to offer a new outlook on the problems if they want to achieve any results, because the market is full of competitors. And all of the competitors want to achieve success as well and be most profitable.

The goal of this work is to do strategic analysis of PATOK a.s. company, give a description of strategic evolution throughout history, and suggest strategic solutions for competitiveness in the future.

In this project I will describe methods of strategic analysis which are necessary for breaking down the financial state of a company, and afterwards I will use the information obtained for the actual breaking down the PATOK a.s. and its position in the market.

A thorough strategic analysis is performed as part of the strategic decisions. Within strategic analysis I will focus on External analysis and internal analysis. In the part dealing with External analysis I will use the tools of microanalysis (Bargaining power of suppliers, Threat of substitutes, Bargaining power of buyers, Industry competition among existing firms, Threat of new entrants) and macro analysis (Political analysis, Economic analysis, Social analysis, Technological analysis). External analysis will be divided into four main categories (Resource based view, The value chain, Financial analysis and SWOT analysis). All the areas mentioned are going to be described in depth for comprehension of operation of enterprises.

First of all I have chosen this company because of my knowledge of its operations. I used to work for PATOK, a.s. and I am glad that I have a really good

relationship with the owners of the company, who allowed me to look into business side of the company. Also, I can discuss all topics openly with all the employees who I know, and I would be glad if I can contribute to this company achieving better results in their profitability and competitiveness in future.

Second of all I have chosen PATOK, a.s. because company middle large company who wants to struggle with their competitors in order to become number one in industry and also has ambition to expand their services to different markets and my case study focused on business strategy within breaking down the company can be helpful for achieving this desire aim.

PATOK, a.s. is middle - large company which works in the field of service and cleaning of sewers, reconstruction and service of pipelines etc.

I would like to demonstrate that even middle-large company such as Patok a.s. can spread their service abroad and achieve success there and not be depend only on domestic market.

I would like to show that dispute the fact of costs for trenchless technology is necessary to be leader in this field in order to achieve bigger profitability.

And also I think that most important part of business are capabilities which are different in each company and allows to be more unique and provide differentiation.

Another thing which I will demonstrate is that Czech Republic has serious problem with education system which also affects this industry.

The last but not least thing which I will point out is that purpose decrease of exchange rate made by the Czech National Bank doesn't not increase Patok's business dispute the fact that Czech National Bank say so.

This thesis will introduce business strategy for company and show why it is necessary to have knowledge about strategic management in own company. All results are based on gained information of company, which will help me to answer following questions:

- What is the major problem of Patok a.s.
- Is there problem of no penetration to new markets ?
- Can new technologies help to be more competitive?

- Is there negative side of growing?
- What assumptions company should fulfill in order to be leader in industry ?
- What is the position of Patok in industry?
- Does Patok a.s. has advantage over their competitors ?
- What is the best strategy for a middle-large Czech company to pursue in other European markets?
- How does a small company successfully manage growth in a competitive market?

This thesis reveal position of company in Czech market and help to better understand and solve the problems related within this business in order to be more profitable. This paper also contains all materials for suggesting the way of going with new business strategy of Patok a.s. and can be useful to top management within building new business strategy.

II. Literature Review

1) Strategy and strategic decision

Strategy and strategic decision has an essential impact on running a company. Strategy is the most important step for fulfilling company goals. In literature we can find countless definitions of strategy, but the most suitable I have found gives the definition as: “Strategy is the direction and scope of an organisation over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations.” (Johnson, Scholes, Whittington, 2008).

Many strategies are destined to fail because of strategic error, which we can identify in six common points: “ there is the Do-It-All strategy, shorthand for failing to make real choices about priorities. The Don Quixote strategy unwisely attacks the company’s strongest competitor first. The Waterloo strategy pursues war on too many fronts at once. The Something-For-Everyone tries to capture every sort of customer at once, rather than prioritising. The Programe-Of-The-Month eschews distinctiveness for whatever strategy is currently fashionable in an industry. The Dreams-That-Never-Come-True strategy never translates ambitious mission statements into clear choices about which markets to compete in and how to win in them’’. (The Economist, 2013)

Strategy decisions are closely linked with issues such as:

Long-term direction of organization: Brad Garlinghouse explicitly recognized that: “Strategic change in Yahoo would require a marathon and not a sprint. Strategy at Yahoo involved long-term decisions about what sort of company it should be, and realising these decisions would take plenty of time.”

The scope of economic activities: This is basically the question of focusing the company on one target or plenty of them. Brad Garlinghouse believed that: “Yahoo was spread too thinly over too many different activities.”

Advantage for the organization over the competition: “Specifically, it is your company's unique skills and resources working to implement strategies that competitors cannot implement as effectively. Understanding your competitive advantage is critical. It is the reason you are in business. It is what you do best that draws customers to buy your product/service instead of your competitor's.

Extremely successful companies deliberately make choices to be unique and different in activities that they are really, really good at and they focus all of their energy in these areas". (About.com, 2012)

Another explanation comes from Professor McGrath's: 'Strategy is stuck,' Professor McGrath's book tells us that: "Virtually all strategy frameworks and tools in use today are based on a single dominant idea: that the purpose of strategy is to achieve a sustainable competitive advantage. This idea is strategy's most fundamental concept. It's every company's holy grail. And it's no longer relevant for more and more companies... Strategy was all about finding a favorable position in a well-defined industry and then exploiting a long-term competitive advantage. Innovation was about creating new businesses and was seen as something separate from the business's core set of activities."

The idea of professor McGrath is that competitive advantage isn't sustainable but is transient. He says "To operate, we need a new set of assumptions about how the world works and a new playbook to compete and win when competitive advantages are transient." She said

Strategic fit with the business environment: Business Environment refers to different things which surround the company. Most importantly they are competitors, customers, suppliers, distributors, industry trends, substitutes, regulations, government activities, the economy, demographics, and social and cultural factors. The author of book Global Environment of business said: "Forces outside the firm's traditional boundaries are increasingly important in determining the firm's success. These forces in the environment of business differ among nations and over time, continually confronting the firm with new issues that require modifications in strategies and management practices. Managing in the context of turbulence has become an ongoing reality. Readers will learn how to modify their strategies and management practices and adapt to this new reality". (The Global Environment of Business, 2011)

The organization's resources and capabilities: The resource-based view is important for achieving a company's goals. Nevertheless, resources without any capabilities are just resources and without any maintaining will not bring any results. By maintaining I mean to adjust and work with them for reaching better performances. An appropriate combination of both would ensure competitive

advantage and bring new opportunities.

The values and expectations of powerful actors in and around the organization: telling us whether the powerful actors (individuals, groups, organizations) see the company as being successful or not. A great example comes from Yahoo where: "the senior managers may have pursued growth in too many directions and been too reluctant to hold themselves accountable. But lower-level managers, ordinary employees, suppliers, customers and Internet users all have a stake in the future of Yahoo too. The beliefs and values of these stakeholders will have a greater or lesser influence on the strategy development of an organisation, depending on the power of each. Certainly, Brad Garlinghouse was making a bold bid for influence over what seemed to be a failing strategy." (Johnson, Scholes, Whittington, 2008).

Levels of strategy:

Strategic decisions have a fundamental impact on the running of a company. It is necessary to separate each level of strategy.

The top management or the owners of the firm perform corporate-level strategy. Corporate-level strategy consists of the activities focused on the mission of the firm, vision of the firm, and their disposable resources and capabilities. Strategic management is a process consisting of a few steps. The first step is the set up the aims and vision of the firm. In order to fulfill the aims of the company, managers have to do strategic analysis and formulate a suitable corporate strategy. Corporate strategy should answer on questions: What business should we be in? How can we add value to shareholder's investment? It should also look at portfolio issues, resource allocation, and corporate financial strategy.

The second level is business-level strategy. This consists of Strategy business units, which help to achieve a competitive advantage and achieve profitability. This level takes care of the developing side of a company, such as market opportunities and developing new products and services. It also controls allocations and structure within Strategy business units.

The third level is operation level, which supports the strategy on the lowest level. Operational level regulates and controls day-to-day operations and brings information for business-level and strategic-level. It is the last, although no less important part of the strategic level because it gains and provides necessary information for running the company.

2) External environmental scanning

The main idea of External environmental scanning is to find out the threats and opportunities of the company. External environmental scanning consists of two parts. The first is Macro environmental scanning, which provides exactly the same environment for all Micro environments, and creates generally applicable conditions in which all subjects on the market run their business. The most important conditions are economical, demographical, technological and social.

The second part of external environmental scanning is micro environment represented by the business sector and competitors. The micro environment doesn't only include competitors, but most importantly suppliers, substitutes, buyers and the threat of new entrants. In order to achieve success with this strategy, it is necessary to have consistency and harmony with the environment. Managers have to know how competitive the company is in the market. The competitiveness of the company can be found by managers through trends and proper strategy.

2.1. Macro environmental scanning

2.1.1. Dealing with uncertainty

The macro environment is hard to analyse because there is a plenty of variables outside. It is a major source of uncertainty. We have to decide what is vital and can affect company and what is unimportant and doesn't affect the company. In other words, we have to find out what are the threats and opportunities, and describe how we can take advantage of them and how we can avoid obstacles. Instead of guessing the impact of macro environment on a company, managers should think about how it will affect the industry which they are in. For example, a change in the average salary can lead to a change in consumption.

2.1.2 Prioritization

The next step after detection of variables is evaluation of priorities by issues priority matrix. The most important things are at the top of the list of any

manager’s duty. We judge priorities according two variables. The first variable is probability of occurrence, which is on the horizontal axis. The second variable is probable impact on the company. Pursuant to this variable we have tree levels of prioritization: high level (high probability of occurrence and high probable impact on company), medium level (medium probability of occurrence and medium probable impact on company), low level (Low probability of occurrence and low probable impact on company).

Chart 1. ISSUE PRIORITY MATRIX

PROBABILITY OF OCCURRENCE	HIGHT PRIORITY	HIGHT PRIORITY	MEDIUM PRIORITY
	HIGH PRIORITY	MEDIUM PRIORITY	LOW PRIORITY
	MEDIUM PRIORITY	LOW PRIORITY	LOW PRIORITY
	PROBABLE IMPACT ON CORPORATION		

Source: C.1992 ADDISON WESLEY PUBLISHING COMPANY, INC.

2.1.3 Pest Analysis

This analysis is considered a universal, dynamic tool for building the strategy and can be applied to every company worldwide. “PEST Analysis is a simple and widely used tool that helps you analyzes the Political, Economic, Socio-Cultural, and Technological changes in your business environment. This helps you understand the "big picture" forces of change that you are exposed to, and, from this, take advantage of the opportunities that they present.”

(Mindtools.com, 2012)

“Pest analysis is a significant factor, which works on level of opportunities

and threats to a company. Many legislative restrictions may affect a company or even limit potential growth”. (Dedouchová, 2001)

For big companies, a significant obstacle is antitrust authority. One of the main obstacles for every company working in industry is the question about environmental protection. Every year the limits and norms are more demanding and companies have problems fulfilling them. Companies are also forced to use new technological equipment which is environmentally friendlier.

Also, the political aspect has to be involved in strategy, because strategy is a long-term task. Stability of government as a part of political aspect is important for long-term sustainability of strategy. Company prefers liberally thinking governments who can bring about a correlation between freedom of political environment and high value of GDP per capita. But the main preference is to have a stable government, otherwise the environment can be destroyed for companies.

In his book ‘Scanning the Business Environment’ professor of Harvard University Francis Aguilar says that PEST Analysis is useful for four main reasons:

- “It helps you to spot business or personal opportunities, and it gives you advanced warning of significant threats.
- It reveals the direction of change within your business environment. This helps you shape what you're doing, so that you work with change, rather than against it.
- It helps you avoid starting projects that are likely to fail, for reasons beyond your control.
- It can help you break free of unconscious assumptions when you enter a new country, region, or market; because it helps you develop an objective view of this new environment.”

2.1.3.1 Economic analysis

“Economic environment is characterized by the state of the economy” (Dedouchová, 2001). This state of the economy has an impact on achieving profitability for the company. We use four indicators for determining the results:

- rate of the economic growth
- interest rate
- exchange rate
- inflation rate

Economic growth “has a direct impact on threats and opportunities of a company. During the period of economic growth companies resist the competitive pressure in microenvironment due to increased consumption of buyers. In this case companies spread their activity. A decrease in economic growth means less consumption and increases competitive pressure and decreases profitability. The result of all this is a price war in a mature microenvironment. Management has to be aware of trends and apply company strategy according to these factors.” (Dedouchová, 2001)

Interest rate “is necessary where the entrepreneur borrows money mainly for financing investment in their company. We can understand interest rate as the value of money, and an increase in the value means a threat to the company. It is the factor of capital cost and it can be the main factor in deciding whether to invest or not. The expansion of the company can be financed through debt. The success of expansion would lean on a low and stable interest rate.” (Deduchova, 2001). An increase in interest rates increases risk to the investment.

Exchange rate “is defined as the ratio value of Czech crown to a unit of foreign currency. Fluctuation of exchange rates has a direct impact on competitiveness of products or services in the global market. A decrease in the exchange rate (increase value of Czech Crown) against foreign currency is considered as unfavorable, but products made in Czech Republic become cheaper on the global market. It also limits the threat of foreign competitors, and brings opportunities for selling abroad.” (Dedouchová, 2001)

Inflation rate “can destabilize the economy. It is defined as the growth rate of general price levels. It causes a slowdown of economic growth, an increase in interest rates and affects the exchange rate. As a result, increase of inflation rate investments become more risky. The characteristic of the inflation rate is that it causes uncertainty of future development guess. In this case, many entrepreneurs don't want to invest in this county and that leads to a decrease in economic

activity. High inflation represents threat.” (Dedouchova, 2001)

Another point of view is to analysis the impact of the Central Bank, tax burden, unemployment, the general government budget etc. (Mallya, 2007)

2.1.2 Political analysis

Political and legislative factors have a significant impact on opportunities and threats to a company. Many legislative regulations may affect and limit a company’s possibilities. On the other hand governments can support companies for national carriers. Many political factors are brought up by the issue of immigration. Every worker from the European Union has the right to work in the UK, except Bulgaria and Romania. Since the expansion of the European Union, over 700 000 Polish workers have come to the UK market and enabled the growth of the economy.

2.1.3. Social Analysis

The social environment of the company brings threats and opportunities for company growth. As the positive results of the last years we can see increase in the retirement age population.

“Social factors are demographic and cultural considerations that affect potential market size and customer needs. A demographic map may reveal a change in the composition of certain age groups like an increase in the retirement age population and this in turn may affect future supply of manpower. A nation with a large immigrant population may discover that certain products or brand names may be taboo to them and if strategic planning fails to identify it sooner, a product or brand name may be launched and may be a disaster due to the cultural factor”. (Exforsys, 2013)

2.1.4. Technological analysis

Changes in technology cause an outdated of company equipment, but on the other hand can bring opportunities in manufacturing. New technologies enable a company to manufacture products in new cheaper and more profitable ways. This new process causes new opportunities and threats for companies. Nowadays, changes in technology are faster than they used to be. Changes in technology, the rise of automatisisation in the workplace, and the evolution of the Internet necessarily change the strategy of companies.

It is very important to distinguish between industries. Not all industries are going to be affected in the same way. Our pipeline industry is less affected than IBM when a new microchip is released, and managers have to be aware of this.

2.2. Industry analysis

Industry analysis has a huge effect on profitability and its objectives are as follow said (Johnson, Scholes, Whittington, 2008).

- “Understand how industry drives competition, which determines the level of industry profitability
- To asses industry attractiveness
- To use evidence of changes in industry structure to forecast future profitability
- To identify opportunities to change industry structure to impose industry profitability
- To identify Key success Factors”

Almost all sectors of human activity affects the environment due to the high level of land use, industrial and other production it is necessary to ensure that companies fulfill certain standards of environmental in order to prevent against permanent damages on environmental and provides sustainable development for other generation. Czech Republic as a county with experience in the socialist system has certain knowledge about possibilities of exploiting their environment

and the risk of damage. Nowadays protection of nature has indispensable role. This idea mainly help business where Patok a.s. belongs.

Social system did not give importance to protection of the environment, which in 70s of last century was important topic for Western Europe and USA. Therefore began rapid increase of the rate of pollution. Due to development in industry was affected mainly North bohemia and North Moravia where is located heavy industry.

Significant change took a place after velvet revolution in 1989 when was established Ministry of environmental. This department made a radical changes in perception of environmental and theoretically prepared new area of business where Patok a.s. took Place. Since than many new areas where included in this type of business and business become more attractive and attracted new competence.

Nowadays company dealing with dangerous waste has to behave according strict laws. The main law is law 185/2001 Sb., which describes all, activates related to this business.

The main question is profitability. To find out whether the industry is profitable or not we have to know three key influences:

- The value of the product to the customer
- The intensity of competition
- Relative bargaining power at different levels within value chain

The value of the product to the customer provides information as to why customers should buy your product or service and not the competitor's one. What are the differences between them?

Success is based on **intensity of competition**. It gives us a better understanding of how intense the competition is within the industry. There are a few variables according to which intensity is compared. For a better view, the variables are put in the following table.

Chart 2. The spectrum of industry structure

	Perfect competition	Oligopoly	Duopoly	Monopoly
Concentration	Many firms	A few firms	Two firms	One firm
Entry and Exit barriers	No barriers	Significant barriers		High barriers
Product Differentiation	Homogeneous product	Potential for product differentiation		
Information	Perfect information flow	Imperfect information flow		

Source: Own processing. Based on data gain from: http://schellenomics.blogspot.cz/2012_02_01_archive.html

2.2.1. Competitive forces

The task of managers is to analyze competitor's forces in the micro environment and find out what the threats and opportunities are, and take advantage of them. The most useful tool in detecting them is Porter's five forces of competition framework. It focuses on analysis of risk of potential new entrants, threat of substitutes, bargaining power of suppliers, and bargaining power of buyers.

The purpose of this analysis is to analyse company position in the industry. And use the information obtained in order to gain a competitive advantage. The results are gained by quantifying our observations. Each force gets a number according to scale. The highest number on the scale is five and the lowest is one. A low score means weak force and vice versa.

2.2.1.1. The threat of new entrants

The threat of new entry is given by potential new companies that can enter the market and become a competitor to our company. A high risk of the potential entry of a new company can be problematic when trying to achieve higher

profitability. On the other hand, a lower risk of potential entry of a new company may bring about space for taking advantage of opportunities, and reaching higher profitability.

Threat of entry is explained as: “How easy it is to enter the industry obviously influences the degree of competition. Threat of entry depends on the extent and height of barriers to entry. Barriers are the factors that need to be overcome by new entrants if they are to compete successfully. High barriers to entry are good for incumbents (existing competitors), because they protect them from new competitors coming in.”(Johnson, Scholes, Whittington, 2008)

Barriers to new entry are as follow:

- Economy of scale
- Access to distribution or supply channel
- Expected retaliation
- Legislation or government action
- Differentiation

According to professor of business Kimberly Amadeo, **economy of scale** is: “An economics term that means large entities, whether businesses, non-profits or governments, can reduce costs simply because of their size. This gives them a competitive advantage over smaller companies. For example, they can produce things more cheaply per unit because they make so many.

Types of Economies of Scale:

There are two main types of economies of scale: internal and external. Internal economies are, as the name implies, internal to the company itself and is controllable by management. External economies are supported by external actors, such as the industry, geographic location or government.”

“**A distribution channel** is the chain of individuals and organizations involved in getting a product or service from the producer to the consumer. Distribution channels are also known as marketing channels or marketing distribution channels.

In this context, the individuals and organizations are known as

intermediaries. Channels are categorized according to the number of intermediaries between the producer and the end user. A direct marketing channel, for example, which has no intermediaries between the producer and the consumer, is known as a level zero channel. A distribution channel that has a single intermediary (typically, a retailer) is known as a level one channel. Level three and higher distribution channels have additional intermediaries, such as value-added resellers, system integrator, and distributors or wholesalers. The distribution channel is further broken down into component channels, such as the sales, product and service channels, each of which may consist of several intermediaries.

There are many factors to consider when selecting the appropriate distribution channel for a given product or service. A channel strategy is the plan a producer develops for distribution.” (SearchITChannel, 2013)

“If an organisation considering entering an industry believes that the **retaliation** of an existing firm will be so great as to prevent entry, or mean that entry would be too costly, this is also a barrier. Retaliation could take the form of a price war or a marketing blitz. Just the knowledge that incumbents are prepared to retaliate is often sufficiently discouraging to act as a barrier.” (Johnson, Scholes, Whittington, 2008)

Legislative or government action can be considered as a barrier of entry. This can include things such as: government restrictions, or patent protection of the company.

Differentiation is a necessary part of the competitive advantage and barriers of entry. Differentiation contributes to product uniqueness and thus can offer potential customers something different and gain an advantage over competitors.

2.2.1.2. The threat of substitutes

“Substitutes are products or services that offer a similar benefit to an industry’s products or services, but by a different process. Substitutes can reduce demand for a particular ‘class’ of products as customers switch to alternatives”. (Johnson, Scholes, Whittington, 2008)

“The existence of substitutes is a threat to a company. The company has to decrease the price of their product, thus decreasing profitability.” (Keřkovský, M., Vykypěl, O., 2002)

The threat of substitutes decrease when the product doesn't have common substitutes on the market, or it fulfills follow criteria:

- Company produces product at a lower cost
- Price of substitutes is not tempting for customers

2.2.1.3. Bargaining power of Buyers

Buyers can also be a threat if that they have enough bargaining power to demand better quality for lower prices. Because of this, company costs are increasing, and that means threat.

“Buyer power is likely to be high when some of the following conditions prevail:

- Concentrated buyers
- Low switching cost
- Buyer competition threat

Concentrated buyers. Where a few large customers account for the majority of sales, buyer power is increased. This is the case on items such as milk in the grocery sector in many European countries, where just a few retailers dominate the market. If a product or service accounts for a high percentage of the buyers' total purchases their power is also likely to increase as they are more likely to 'shop around' to get the best price and therefore 'squeeze' suppliers than they would for more trivial purchases.

Low switching costs. Where buyers can easily switch between one supplier or another, they have a strong negotiating position and can squeeze suppliers who are desperate for their business. Switching costs are typically low for weakly differentiated commodities such as steel.

Buyer competition threat. If the buyer has some facilities

to supply itself, or if it has the possibility of acquiring such facilities, it tends to be powerful. In negotiation with its suppliers, it can raise the threat of doing the suppliers' job themselves. This is called backward vertical integration, moving back to sources of supply, and might occur if satisfactory prices or quality from suppliers cannot be obtained. For example, glass manufacturers have lost power against their buyers as some large window manufacturers have decided to produce some of their own glass. It is very important that buyers are distinguished from ultimate consumers. Thus for companies like Nestlé or Unilever, their buyers are retailers such as Carrefour or Tesco, not ordinary consumers. Carrefour and Tesco have much more negotiating power than an ordinary consumer would have. The high buying power of such supermarkets has become a major source of pressure for the companies supplying them". (Johnson, Scholes, Whittington, 2008)

2.2.1.4. Bargaining power of suppliers

Bargaining power of suppliers can be a threat when a company has to accept increases of raw materials of suppliers or accept worse quality of raw materials. Both situations lead towards a decrease in profitability.

Bargaining power can be high in the following cases:

- Concentrated suppliers
- High switching cost
- Supplier competition threat

“Concentrated suppliers. Where just a few producers dominate supply, suppliers have more power over buyers. The iron ore industry is now concentrated in the hands of three main producers, leaving the steel companies, relatively fragmented, in a very weak negotiating position for this essential raw material.

High switching cost. If it is expensive or disruptive to move from one supplier to another, then the buyer becomes relatively dependent and correspondingly weak. Microsoft is a powerful supplier because of the high switching costs of moving from one operating system to another. Buyers are prepared to pay a premium to avoid the trouble, and Microsoft knows it.

Supplier competition threat. Suppliers have increased power

where they are able to cut out buyers who are acting as intermediaries. Thus airlines have been able to negotiate tough contracts with travel agencies as the rise of online booking has allowed them to create a direct route to customers. This is called forward vertical integration, moving up closer to the ultimate customer.” (Johnson, Scholes, Whittington, 2008)

2.2.1.5. Rivalry between established competitors

The final power of competitive forces is rivalry within the industry. When no rivals exist, or are weak, it means that the market has a gap, and higher profits can be obtained through increasing the price of a product. On the other hand, when rival companies are strong, it means a price war on the market, and increases rivalry between competitors. This means a huge threat to profitability of companies operating in this particular market

There are a number of additional factors directly affecting the degree of competitive rivalry in an industry or sector:

- Competitor balance
- Industry growth rate
- High fixed cost
- High exit barriers
- Low differentiation

“**Competitor balance.** Where competitors are of roughly equal size there is the danger of intense competition as one competitor attempts to gain dominance over others. Conversely, less rivalries industries tend to have one or two dominant organizations, with the smaller players reluctant to challenge the larger ones directly (for example, by focusing on niches to avoid the ‘attention’ of the dominant companies).

Industry growth rate. In situations of strong growth, an organization can grow with the market, but in situations of low growth or decline, any growth is likely to be at the expense of a rival, and meet with fierce resistance. Low-growth markets are therefore often associated with price competition and low profitability. The industry life cycle influences growth rates, and hence

competitive conditions.

High fixed costs. Industries with high fixed costs, perhaps because they require high investments in capital equipment or initial research, tend to be highly rivalries. Companies will seek to reduce unit costs by increasing their volumes: to do so, they typically cut their prices, prompting competitors to do the same and thereby triggering price wars in which everyone in the industry suffers. Similarly, if extra capacity can only be added in large increments (as in many manufacturing sectors, for example a chemical or glass factory), the competitor making such an addition is likely to create short-term overcapacity in the industry, leading to increased competition to use capacity.

High exit barriers. The existence of high barriers unable to exit the industry in other words, closure or disinvestment tends to increase rivalry, especially in declining industries. Excess capacity persists and consequently incumbents fight to maintain market share. Exit barriers might be high for a variety of reasons: for example, high redundancy costs or high investment in specific assets such as plant and equipment that others would not buy.

Low differentiation. In a commodity market where products or services are poorly differentiated, rivalry is increased because there is little to stop customers switching between competitors and the only way to compete is on price. ” (Johnson, Scholes, Whittington, 2008).

2.2.1.6. Impact of five forces analysis

The impact of five forces analysis is mainly based upon:

- Forecasting industry profitability
- Strategies to improve industry profitability

Forecasting industry profitability gives us a look at past and future profitability. “The Five forces analysis is focused on the past and it is weak indicator of future profitability. If we can forecast changes in industry structure, we can predict likely impact on competition and profitability” (David Russell, 2013)

Strategies to improve industry profitability have to be able to answer

these questions:

- “What structural variables are depressing profitability?
- Which ones can be change by individual or collective strategies?” (David Russell, 2013)

Industry changes very fast (technological aspects, behavior of clients, new trends, etc.) and company management needs to be aware of the fact that for sustainable competitive advantage, they need to continuously invest.

One of the most important things here is to find out the key success factor. As the name suggests, it is the key for reaching profitability. The key success factor can be divided into these stages:

- First is focused on Demand
- Second is focused on competition

Demand orientated analysis focuses on customer’s needs and their reason for buying. Competition-orientated analysis mainly focuses on surviving the competition by using competitive advantage. It also answers the question of how intense competition is on market, and how strong the competitors are.

2.2.2 Intra-industry analysis

Industry is too wide area and the impact of five forces can bring different impact on each company. They have to deal with the different bargaining power of suppliers and buyer. Each company has different capabilities and has a different place in the industry. To illustrate this, intra-industry can be divided according to:

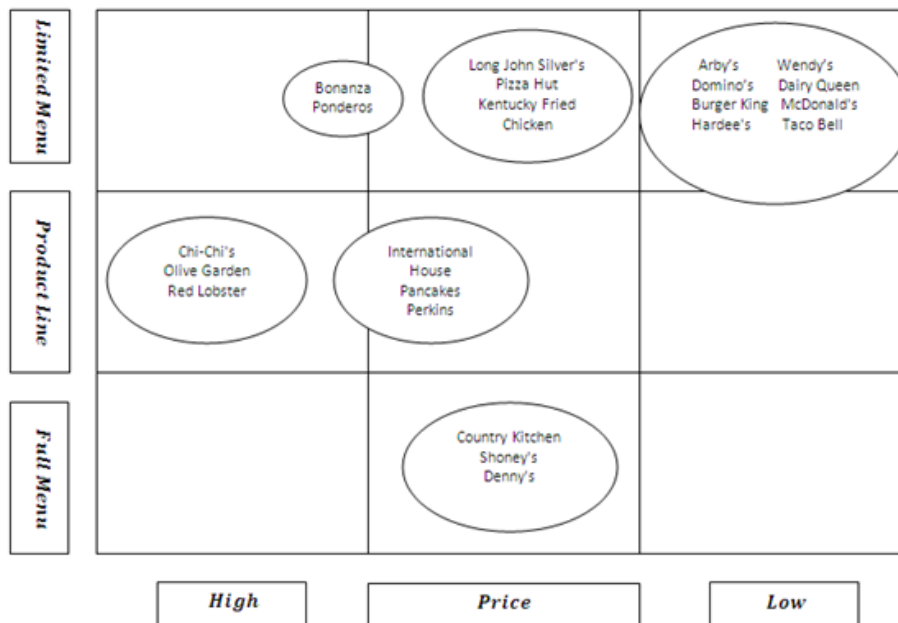
- Strategic groups
- Competitor analysis
- Segmentation

Strategic groups are organizations within an industry or sector with similar strategic characteristics, following similar strategies or competing on a similar basis. These characteristics are different from those in other strategic groups in the same industry or sector. (Johnson, Scholes, Whittington, 2008).

In order to identify strategic groups, it is necessary to set up the variables

(geographical, product, quality, price, degree of vertical integration, level of technology, etc.) according to which is company going to be distinguished. The next step is to assign the right position to each company. And the last step is to make the final cluster.

Chart 3. U.S. Restaurant Strategic Group Mapping



Source: <http://mba-lectures.com/management/strategic-management/1000/strategic-group-mapping.html>

Strategic group helps us to understand the industry. Managers are aware of barriers of another group and they can see the strategy which each company has been following up to now. Also, they can get a clear view of their competitor's strategy and use it to their advantage when building a new strategy. If the company wants to move to another group, that company needs to know intra-group barriers and group profitability. Many managers use this tool for building a brand new strategy and also they try to inspire their self in competitor's strategy. They are able to set a new stronger barrier and improve profitability of the group.

“Potters five forces provide a global and abstract appraisal of competition. In order to survive in a competitive environment, a much more precise knowledge is required.” (David Russell, 2013).

Competitor analysis is a vital task, which provides a breakdown of competitors more precisely and performed on a continuous basis by everyone in the firm.

Competitor analysis has important aims:

- To acquire extensive information about competitors
- To predict their behavior

For a better understanding a competitor, managers have to know the following parts of their competitor's structure:

- Strategy
- Objectives
- Assumptions
- Resources and capabilities

The above-mentioned parts are useful tools for prediction. The **Strategy** of a competitor gives managers an idea of how the firm is competing. The **objectives** provide information about a competitor's current goals, whether competitors reach their goals and how its goals are likely to change. Companies can focus either on market share or financial results. The market focus company is tougher. If the company doesn't have desirable results, their strategy is likely to change.

Assumptions what assumptions a company has about the industry and itself. Assumptions creates and industry recipes. In other words how the company do the business. Also assumptions can create blind spots. These blind spots are not usually seen by competitors and bring managers a competitive advantage.

Resources and capabilities give managers an idea about key strengths and weaknesses.

Managers can predict two sides:

- What changes competitor going to make (Strategy, objectives)
- How will be competitors respond to our strategic changes (Assumptions, Resources and capabilities)

Segmentation is an important stage in business strategy.

“Competitions occur at a localized level, within specific product groups at specific national or regional levels”. (David Russell, 2013)

First of all managers have to know whether their product is a commodity or not. Commodities behave different than other product, because there are insensitive to price. If the price increases, the demand stays still or changes very little. The main characteristic of a commodity is that the product cannot be differentiated (oil). Commodities shows weak segment.

Managers usually divide segmentation into three parts because in each segment there are different rules of the game, different attractiveness, different key success factors, different competitors:

- Customer

Chart 4. Characteristic of Buyer

Characteristic of buyers			
Industry buyers	Household buyers	Distribution channels	Geographical Location
Size, Technical, Sophistication, Replacement	Demographic, Lifestyle, Purchase occasion	Size, Distributor/Broker, Exclusive / Nonexclusive General / special list	

Source: Lectures of Business strategy with David Russell

- Product

Chart 5. Characteristic of the Product

Characteristic of the product
Physical size
Price level
Product features
Technology design

Inputs used (e.g. raw materials)
Performance characteristics
Pre-sales & post-sales services

Source: Lectures of
David Russell

Business strategy with

- Market

But the main question is similar for all three of them:

- What is the most profitable product in the sector?
- What is the most profitable customer in the sector?
- What is to most profitable market in the sector?

3) Internal analysis

External analysis focused on threats and opportunities in an industrial environment, and internal analysis will focus on strength and weaknesses of companies. Unlike external analysis, here managers focus on the structure of the company and value chain. The most important part is to find out and name the strengths of the company, which leads to creating a competitive advantage.

3.1. Resource based approach

Resource based approach is “the competitive advantage and superior performance of an organization is explained by the distinctiveness of its capabilities” (Wernerfelt, B. 1984)

Resource based approach consists of two main parts:

- Resources
- Capabilities

Those two parts are the principal basis for reaching their strategy and profitability.

The contemporary competitive environment is characterized by turbulence and rapid change. Thus, internal resources and capabilities offer a more secure basis for strategy than market focus. (Russell, D. 2013)

Resources are the fundamental stone of building a competitive advantage. Without them managers cannot reach success. Resources can be divided into three categories:

- Tangible resources
- Intangible resources
- Human resources

Tangible resources are the physical assets of an organization such as plant, buildings and also finance. Tangible resources are evaluated and identified in financial statements. They contribute to competitive advantage but less than the intangible and human resource, because tangible things are widely spread and

anybody can hold them. “Physical resources are evaluated according to age, flexibility, location, and technological sophistication. Financial resources are evaluated according level of indebtedness and free cash flow, which determine growth potential”. (Russell, D. 2013)

Intangible resources are “non-physical assets such as information, reputation and knowledge”. (Johnson, Scholes, Whittington, 2008).

“Intangible resources are invisible and explain the difference between the market and book value.

Intangible resources are usually consist of tree parts:

- Brand (product reputation) can have huge value. And it reflect on price premium consumers are wiling to pay
- Company reputation is also valuable resource, in relation with all stakeholders.
- Technology: Patent can be valuated but know-how cant be.” (David Russell, 2013)

They are more valuable than tangible assets. They can’t be bought.

Human resources “are productive services, that people offer to the firm in terms of their skills, knowledge and decision making abilities. They are difficult to appraise.

Indicators:

- Qualification, skills, experience levels
- Salary level, age pyramid
- Social climate, employee morale
- Employee turnover” (Russell, D. 2013)

Capabilities “is the ability to perform at the level required to survive and prosper”. (Johnson, Scholes, Whittington, 2008).

Capabilities are recipes which adjust tangible, intangible and human resources. Without adjustments and management, resources are not productive.

Managers can focus on three most important parts:

- “Organization capabilities: a firm’s capacity for undertaking a particular productive or service activity
 - Distinctive competence: a competence that an organization masters particularly well relative to its competitors
 - Core competence: a competence that makes a disproportionate contribution to ultimate customer value or the efficiency with which that value is delivered and provides a basis for entering new markets”. (Russell, D. 2013)

Capabilities are the skills of a company. Can be part of the decision process and they are hold by workers in order to reach the company’s aims. Generally, capabilities are products of organizational structure and control system. Capabilities are driving the decision process, cultural norms, behavior and value of the company.

3.2 Value chain model

“The value chain describes the categories of activities within and around an organization, which together create a product or service. Michael Porter developed the concept in relation to competitive strategy.” (Competitive Advantage, 1985).

Chart 6. Porter’s Generic Value Chain

Figure 1: Porter’s Generic Value Chain



Source : <http://www.emeraldinsight.com/journals.htm?articleid=868869>

The Value chain is divided into two activities. First are Primary activities and they are “*directly* concerned with the creation or delivery of a product or service. For example, for a manufacturing business:

- Inbound logistics are activities concerned with receiving, storing and distributing inputs to the product or service including materials handling, stock control, transport, etc.
- Operations transform these inputs into the final product or service: machining, packaging, assembly, testing, etc.
- Outbound logistics collect, store and distribute the product to customers, for example warehousing, materials handling, distribution, etc.
- Marketing and sales provide the means whereby consumers/users are made aware of the product or service and are able to purchase it. This includes sales administration, advertising and selling.
- Service includes those activities that enhance or maintain the value of a product or service, such as installation, repair, training and spares.

Each of these groups of primary activities is linked to support activities. Support activities help to improve the effectiveness or efficiency of primary activities

- Procurement. The processes that occur in many parts of the organization for acquiring the various resource inputs to the primary activities.
- Technology development. All value activities have a ‘technology’, even if it is just know-how. Technologies may be concerned directly with a product (for example, R&D, product design) or with processes (for example, process development) or with a particular resource (for example, raw materials improvements).
- Human resource management. This transcends all primary activities. It is concerned with those activities involved in recruiting, managing, training, developing and rewarding people within the organization.
- Infrastructure. The formal systems of planning, finance, quality

control, information management, and the structures and routines that are part of an organization's culture (Johnson, Scholes, Whittington, 2008).

One of the most important parts is **operation**. I already mentioned that operations convert input to output. The aim of the company would be to make a product within the lowest cost. Managers can see the strong and weak sides of their company in four factors:

- Return of scale
- Gain experience
- Lifecycle effect of production process
- Flexibility of production technology

Return of scale is gained by advantage of market share. Return of scale is higher when the company can grind all fixed costs in more products and can make the product at a lower cost per unit.

Gain experience is knowledge which a company gets by making products. The more the company makes, the more experience is gained. These experiences can be use for saving costs and becoming more profitable:

- Specialization of works
- Better utilization of equipment
- Better efficiency of works
- Change of resources
- Change in structure of product

Companies which work in industries where there is a strategic advantage economy of scale should get a bigger market share than their competitors.

Flexibility of production technology increases utilization of equipment by better timing. Flexibility can decrease the time needed for operations and increase control of quality.

Marketing strategy is based upon choosing the key segments, suggesting marketing mix, which includes price, place, promotion and product.

Concepts of marketing strategy:

- Generalized market – different groups of customers have the same needs, company can satisfy the average customer

- Differentiated market – company can divide market into segments and make products to satisfy all customers.
- Targeted marketing – the market is divided and the company can focus only on one segment

Correct control of Inbound and outbound logistics can bring about a decrease in costs or an increase in product quality. Managers can save more money due to the increase of production turnover and due to a decrease of warehousing costs. The best solution is a method called just-in-time. This method requires inputs only when they are needed. An important part is to control quality and prevent against potential reclamation. When the product is leaving the factory, workers have to check the quality of the product and avoid losses in case of damage. Quality check has a significant impact on reaching planned market share. “Increase of reliability on outgoing product decrease cost in the following ways:

- Increased productivity of labor – This comes about because the company doesn’t have to deal with the waste caused by damaged products, leading to a decrease in the direct cost of the product.
- Increased reliability - Company doesn’t have to repair as many damaged products” (Dedouchová, 2001).

“Human Resource Management (HRM) is the function within an organization that focuses on recruitment of, management of, and providing direction for the people who work in the organization. Line managers can also perform HRM.

HRM is the organizational function that deals with issues related to people such as compensation, hiring, performance management, organization development, safety, wellness, benefits, employee motivation, communication, administration, and training.

HRM is also a strategic and comprehensive approach to managing people and the workplace culture and environment. Effective HRM enables employees to contribute effectively and productively to the overall company direction and the accomplishment of the organization's goals and objectives.

HRM is moving away from traditional personnel, administration, and transactional roles, which are increasingly outsourced. HRM is now expected to

add value to the strategic utilization of employees and that employee programs impact the business in measurable ways. The new role of HRM involves strategic direction and HRM metrics and measurements to demonstrate value.” (Heathfield, S. 2013)

Big companies use new IT systems, which encourage better results. The system ensures intra-connection of a company, fast approach to information, extranet – faster connection with suppliers.

3.3. Financial analysis

Financial analysis indicators focus on all aspects of company performance. According to focus managers, the main categories are:

- Profitability ratio
- Liquidity ratio
- Activity ratio
- Debt ratio

Each ratio focuses on a different side of the company. A company is healthy when all ratios are in balance and report proper values.

“Financial analysis is used for assessment of the financial health of a company. It serves for strategic and tactical decisions about investments. It also provides information to owners, debtors and other subjects. Inputs for financial analysis are cash flow, balance sheet, profit and loss. (Kislingerová, 2007)

Managers have to keep in mind that it is important not just to analyze financial ratios at the moment, but over a period of time. The results can be compared either against the industry or a similar sized company operating in the same industry.

Managers can use two types of analysis, horizontal or vertical. Each analysis focuses on a different area.

Horizontal analysis’ most common definition is “A procedure in fundamental analysis in which an analyst compares ratios or line items in a company's financial statements over a certain period of time. The analyst will use

his or her discretion when choosing a particular timeline; however, the decision is often based on the investing time horizon under consideration”.

Vertical analysis is commonly defined as “A method of financial statement analysis in which each entry for each of the three major categories of accounts (assets, liabilities and equities) in a balance sheet is represented as a proportion of the total account. The main advantage of vertical analysis is that the balance sheets of businesses of all sizes can easily be compared. It also makes it easy to see relative annual changes within one business.”

3.3.1 Profitability ratio

Profitability ratio measures company efficiency and performance. Profitability ratio shows managers how big one unit of input generates profit. Managers can distinguish two types of profitability:

- Margins
- Returns

Margins show a manager’s ability to translate sales dollars into profit at different levels of measurement.

Ratios represent the ability to measure the overall efficiency of a company and whether it produces returns for its shareholders.

Net profit margin

Its amount of profit earned from sales and other operations.

The formula is:

Net profit margin= net profit after taxes / total revenues

Net profit margin is displayed as a percentage. If the company gets results of 20% it means that company has a net profit of 0,2 for each dollar of sales. A higher number is desirable and means a more profitable firm, which has control over its costs when compared to its competitors. A lower number is undesirable, but it can also mean that the company is following pricing strategy and that fact has an impact on net profit margin.

Return on asset

Return on asset can be described as the amount of profit earned on each dollar invested in asset. It basically provides information on how efficient managers are with their assets.

“An indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage.” (Investopedia, 2012)

The formula for return on assets is:

$$\text{Return on asset} = \text{Net income} / \text{Total assets}$$

A higher number is desirable because the company earns more money on less investment. In other words, the company is better at converting their investment into money.

Return on equity

This is the most important ratio, because it shows the amount of net income returned as a percentage of shareholders equity. It shows how much profit a firm generated with shareholders equity. It is useful for evaluation of shareholders investment, and gives shareholders an idea of how much profit they earn for one unit of input.

The formula for return on equity:

$$\text{Return on Equity} = \text{Net Income} / \text{Shareholder's Equity}$$

A High number is desirable because it shows how efficient a company is at using shareholders equity, and shows how a company can generate income on new investment internally.

Return on Sales

This ratio is used for evaluating a company's operational efficiency, and it shows how much profit is generated by one dollar of sales. Managers can compare return on sales over a period of time, and also with companies in the same industry and of the same size. High return on sales suggests efficiency growth.

The formula for return on sales:

$$\text{Return on sales} = \text{Net income (before interest and tax)} / \text{Sales}$$

3.3.2. Liquidity ratio

Liquidity shows managers how quickly a company's assets can be converted into money. It is the indicator of cash flow problem. One definition says:

“Liquidity is the amount of capital that is available for investment and spending. Capital includes cash, credit and equity. Most of the capital is credit rather than cash. That's because the large financial institutions that do most investments prefer using borrowed money. Even consumers traditionally prefer credit cards to debit cards, checks or cash. Liquidity is measured by the money supply, such as M1, M2, and M3.” (Amadeo, K. 2014)

Three most important ratios:

Current Ratio – How many dollars of short-term assets are available for every dollar of short-term liabilities “the company's current assets divided by its current liabilities. It determines whether a company could pay off all its short-term debt with the money it got from selling its assets”. (Amadeo, K. 2014)

In other words, how many times company liabilities are covered by current assets. From a debtor's point of view, it says how many times a company is capable of paying off its creditors if they convert all current assets. Usually, a higher ratio means fewer problems with paying off their liabilities. The optimal amount of ratio should be 1,6 – 2,5. If managers follow an aggressive strategy, it would be on the lower end, and vice versa. A higher number indicates enough resources to meet creditors demand for 12 months. A lower number indicates that current liabilities exceed current assets, and the company can have problems meeting its short term liabilities. As a solution, the company has to decrease

liabilities or increase assets.

Quick Ratio – “The same as the current ratio, only using just cash, accounts receivable and stocks/bonds. The business can't count its inventory or prepaid expenses that can't be easily sold.” (Amadeo, K. 2014)

A high number may indicate too much cash in hand, or a problem with collecting its account receivables. It happens when a company has a problem with borrowing on short term debt. A lower number can say that a company relies on inventory to pay off short-term debt. A company which has problems collecting money from debtors, or has long inventory turnover, can have problems with liquidity.

It is very useful to compare the evolution of quick ratio in time. The optimal value should be between 0,7 -1 if the company follows a conservative strategy, between 1 – 1,5 through a defensive strategy and 0,4 – 0.7 if it follows an aggressive strategy.

Cash Ratio - As the name implies, the company can only use its cash to pay off its debt. If the cash ratio is one or greater, that means the business will have no problem paying its debt, and has plenty of liquidity.” (Amadeo, K: 2014)

3.3.3. Activity ratio

Activity ratio measures how companies utilize

“Accounting ratios that measure a firm's ability to convert different accounts within its balance sheets into cash or sales. Activity ratios are used to measure the relative efficiency of a firm based on its use of its assets, leverage or other such balance sheet items. These ratios are important in determining whether a company's management is doing a good enough job of generating revenues, cash, etc. from its resources.”(Invetopedia, 2013)

Inventory turnover

Inventory turnover says how quickly the company is selling its inventory, or in other words, measures the number of how many times inventory is sold or used over a particular amount of time

The formula:

$$\text{Inventory turnover} = \text{annual sales} / \text{inventory}$$

A higher number is favorable than a lower number because it can indicate strong sales. But on the other hand, too high a number is unhealthy because it indicates loss of sales due to inventory shortage. A low number is also a bad sign because the product tends to be left sitting in a warehouse, or can indicate poor sales or overstocking.

Account receivables turnover

Indicates how quickly a company collects money from its sales. Account receivables turnover depends upon the policy that managers set up with debtors.

$$\text{Account receivables turnover} = \text{annual sales} / \text{accounts receivables}$$

A higher number indicates that a company is operating on a cash basis. A company that has a good policy and collection of money is efficient. A lower number is unfavorable because the company provides free loans to their clients. Managers should change the policy.

Account payable turnover

Tells the managers how quickly the company is paying off its suppliers. It indicates how many times in a time period the company pay off its average payable amount.

The formula is:

$$\text{Account payable turnover} = \text{Annual sales} / \text{account payables}$$

A higher number is worse in this case because managers missed the opportunity to invest money. A lower number is better as long as it is wanted.

Working capital turnover

How efficiently a company uses its working capital in order to generate profit.

The formula is:

$$\text{Working capital turnover} = \text{sales} / \text{net working capital}$$

A higher number is better because the company generates a lot of sales compared to money it uses to fund the sales, and gives the company a competitive advantage. Too high a number can indicate the problem that the company can operate on small amount of capital. It can seem that the company works at a high level of efficiency, but maybe only has low working capital, and the company can't support their sales. In this case the company can run into trouble.

3.3.4. Leverage ratios

Debt to asset ratio

Tells us how much debt a company has used for financing its assets. It is a very broad ratio, which includes long-term debt, short-term debt, tangible assets and intangible assets.

The formula is:

$$\text{Debt to asset ratio} = \text{total debt} / \text{total asset}$$

A higher number indicates that a company is using more liabilities which is more risky because creditors can demand payment of debt owed. A low number is less risky and the company uses equity to finance assets.

Time interest earned

measures the ability of a company to meet its fixed interest payments. It gives managers an idea of how many times annual interest expenses by income before interest and taxes.

The formula is:

Time interest earned = earnings before interest and taxes / interest expense

A higher number means a better ability of the business to pay off its interest and debt. A lower number indicates that the company has less available earnings for meeting interest payments. This business is more vulnerable to an increase in interest rates.

Degree of financial leverage

Degree of financial leverage helps to calculate the amount of fixed costs, and measures the relationship between paid interest and company performance. In other words, it measures the sensitivity of EPS to changes in EBIT as a result of change in debt.

Formula is:

Degree of financial leverage = EBIT / EBT

A higher number is more risky as it means the company has higher interest payments.

4) SWOT Analysis

The results of internal and external analysis are processed in SWOT analysis. Internal analysis tells managers the strengths and weaknesses of their company, while External analysis informs managers about threats and opportunities, which are in the environment. Managers have to work with those factors to obtain better results for their company. For internal / external factors, managers can utilize an Internal / external strategic factor analysis summary. In the table that follows, strengths and weaknesses are listed in the first column. In second column are weights, which indicate impact on company strategic position. This column is the most important, and the sum of row doesn't have to exceed 1. The third column is rating and it shows how the company responds to this factor (1-5, where 1 is poor and 5 is outstanding). The last column multiplies the numbers from column two and three, and provides us with a weighted score. When managers calculate the last column, they get the total weighted score which gives managers an idea of how well a company responds to strategic factors in external environment.

Chart 7. Internal / External Strategic Factor Analysis Summary

	Column 2	Column 3	Column 4
Opportunities /strengths			
Threats / weaknesses			
Total weighted score			Final weighted score
		1	

Source: T.L. WHEELER AND J.D. HUNGER, 'EXTERNAL STRATEGIC FACTORS ANALYSIS SUMMARY (EFAS)'

It is necessary closely examine the results of internal and external analysis. Companies have a lot of information and it is important to process the important parts and work with them. The easy tool for processing them is to use SWOT analysis which focuses on threats, weaknesses, opportunities and strengths. SWOT analysis should provide the basis for formulation strategies.

Principles for SWOT analysis:

- The results should be relevant
- Focus on important aspects
- Should be impartial
- Impact should be evaluated

SWOT analysis shouldn't be just a list of threats, opportunities, weaknesses and strengths. It should give strategies:

Chart 8. SWOT Matrix

Internal factors		STRENGTHS (S)	WEAKNESSES (W)
		External factors	
OPPORTUNITIES (O)		SO STRATEGIES	WO STRATEGIES
	THREATS (T)	ST STRATEGIES	WT STRATEGIES

Source: ADAPTED FROM H. WEIHRICH, 'THE TOWS MATRIX - A TOOL FOR SITUATIONAL ANALYSIS,' LONG RANGE PLANNING (APRIL 1982), P.60.

10 Strategy formulation and selection

Managers have already summarized data useful for building strategy. The next step is to set up the corporate direction:

- Growth
- Retrenchment

There are only two possible directions. The first direction focuses on growth of the company. It can be horizontal or vertical, because the company is healthy. The second focuses on rebuilding the company, because the company isn't in good shape.

Now managers can come up with a corporate strategy by using the tool, Direction policy matrix:

Chart 9. Direction Policy Matrix

1 Growth concentration via vertical integration or market penetration	2 Growth concentration via horizontal integration	3 Retrenchment turnaround
4 Growth concentration via horizontal integration	5 Growth horizontal integration	6 Retrenchment divestment
7 Growth concentric diversification	8 Growth conglomerate Diversification	9 Retrenchment bankruptcy or liquidity

Source: J.D.HUNGER, E.J.FLYNN, AND T.L.WHEELEN, 'CONTINGENCY CORPORATE STRATEGY : A PROPOSED TYPOLOGY WITH RESEARCH PROPOSITIONS'

Retrenchment strategies:

Retrenchment by bankruptcy or liquidity is the worst scenario. The company has to work in low industry attractiveness, and their competitive position is low. The solution is to go into bankruptcy. The company is poor in what they are doing, and they are in the wrong business.

Retrenchment by divestment. In this case a company is working in the middle of an attractive industry, but they are weak. The result for this situation is to sell their assets and close the company.

Retrenchment by turning around. A company is operating in a really profitable industry, but they can't take advantage of it. The Company has to look around and inspire itself by watching their competitors.

Growth strategies:

Growth by concentric diversification. A company is working in a low industry, but has strong position on market. The result is to go to a slightly different market, or make a slightly different product. The company is healthy and at a high standard in what they are doing, but the industry is not attractive.

Growth by conglomerate diversification. A company is operating in a low attractiveness industry and has an average competitive position. The company has to switch the market and product. The company can do better with their knowledge in different areas.

The strategies of growth two, four and five have pretty much the same position on the market. They are working in a medium attractive industry and have a high or medium competitive advantage. Or they are operating in an attractive industry and have an average competitive advantage. Those companies should increase market penetration by bringing new product on to the existing market, or set up a new market with their existing product.

Growth concentration via vertical integration or market penetration. A company is healthy and operating according to best assumption. This company can achieve vertical growth by integration of its supply channels or distribution channels.

Sources of competitive advantage

Competitive advantage has two sources:

- Cost advantage
- Differentiation advantage

Theoretically, managers can utilize more than two types. Potter came up with a combination of those two sources, which extend the two basic sources.

Cost advantage

Cost advantage “means you provide reasonable value at a lower price. Companies do this by continuously improving operational efficiency. They usually pay their workers less, either by providing intangible benefits such as stock options, benefits or promotional opportunities, or by taking advantage of unskilled labor surpluses. As they get larger, they can take advantage of economies of scale, and buy in bulk.” (Amadeo, K. 2012)

Required skills and resources:

- Sustained capital investment
- Leadership and access to capital
- Process engineering skills
- Intense supervision for ease of manufacture
- Low-cost distribution system

Organization requirements:

- Tight cost control
- Frequent detailed control
- Reports
- Structured organisation
- Responsibilities
- Incentives based on meeting
- Quantitative targets

Drivers of cost advantage are as follow: Economy of scale, Economy of

learning, production techniques, product design, input cost, capacity utilization, organization efficiency.

Differentiation advantage

Differentiation advantage “means you have a strong brand that clearly communicates how you deliver product or service benefits much better than anyone else. A company can achieve differentiation by providing a unique or high-quality product, by delivering it faster, or by marketing it in a way that truly reaches customers better. Instead of being a cost leader, the company with a differentiation strategy can charge a premium price.

Companies usually achieve differentiation with innovation, quality or customer service. Innovation means you meet the same needs in a new way.”
(Amadeo, K.2012)

Required skills and resources:

- Strong marketing abilities
- Product engineering
- Creative flair
- Strong capability in basic Research
- Corporate reputation for quality or technological leadership
- Long tradition in the industry or unique combination of skill drawn from other businesses
- Strong cooperation from channels

Organization requirements:

- Strong coordination among functions in R & D
- Product development
- Marketing subjective measurement
- Incentives instead of quantitative measures
- Amenities to attract highly skilled labour, scientists or creative people

Drivers of differentiation advantage are as follow: performance, features, reliability, conformance, durability, serviceability, aesthetics and perceived quality.

Focus advantage

Focus “means you understand and service your target market better than anyone else. You can use either a cost leadership or differentiation strategy, but you focus it on one specific target market. Often it's a tiny niche that isn't being served by larger companies. Community banks are an example of a segment that uses a focus strategy to gain sustainable competitive advantage. They target local, small businesses, or high net worth individuals. Their target audience enjoys the personal touch that big banks may not be able to give, and they are willing to pay a little more in fees for this service. These banks are using a differentiation form of the focus strategy.” (Amadeo, K. 2012)

III. Empirical Part

5) Characteristic of Enterprise

5.1. Basic information

Company's name:	Patok a.s.
Legal form of business:	Public limited company
Company headquarters:	U Porcelánky 2903, Louny 44001
IČO:	27356248
Registration court:	Ústí nad Labem
File number:	Section B, file 1925

5.2. Scope of business

- 1. Business in dealing with dangerous waste**
- 2. Construction**
- 3. Technological service**
- 4. Transportation**
- 5. Joinery**
- 6. Construction design**

5.3. Company profile

Patok was established in 1991 in the village of Hřivice, which is near by Louny in the North of Czech Republic. Since the beginning the company has dealt with dangerous and other waste services in the areas of cleaning and industrial cleaning, repairing of sewerage, and construction work in ecology. All mentioned areas contributed to the revenues of the company. For a period of 23 years of existence, the company has extended its portfolio of services.

Nowadays, the company has more than 100 employees and its own fleet of trucks and other special technology adjusted precisely for dealing with liquid and solid material.

The company is based on long time experience in business and skilled labor. The process of running the company is based on standard ISO 9002, which ensures the smooth running of contracts. The basis for running the business in the area of dealing with dangerous waste is concession permission, which allows it to deal

with dangerous and other waste, and get permission to transport dangerous waste in areas where the company has business. All activities are controlled and have to be environmentally friendly.

The company has undergone a long development process. Initially, Patok was a very small company with local character, but through the development of others activities, Patok increased their portfolio and their customer base as well as territory. Nowadays the company has borders and operates abroad as well as in the domestic market. The company prides itself on quality of service, which is reached by using the best available technology on the market, at a reasonable price. This competitive advantage is a strong element which allows the company to rank among the top companies in this business. Investments are targeted to new and perspective technologies which increase quality of provided service. Equally important is fast and effective communication with customers.

Characteristic signs of Patok a.s.:

- Complexity – huge range of services available
- Organization – way of internal and external communication
- Quality – high standard of service provided
- Legality – using suitable procedures to deal with dangerous waste
- Product tailored – adjusting provided service to particular customer
- Reaction – immediate reaction to customers needs, Nonstop service

5.4. Vision and mission

Patok a.s. endeavors to be a reliable company providing a wide range of services connected with the waste business.

The company wants to be a dependable supplier, and optimally utilize its capacity for reaching profits and use them for the further development of Patok a.s. Access to each customer with the greatest enthusiasm and professional qualifications, with the aim of fulfilling the needs of Patok's customers. They also develop employee's skills in order to achieve customer satisfaction.

5.5. Product portfolio

Patok a.s. is a company whose product is service. The company provides technological and ecological services in relation to customer needs and possibilities. In recent years, management has successfully tries to extend their portfolio. Among the main areas of services provided include:

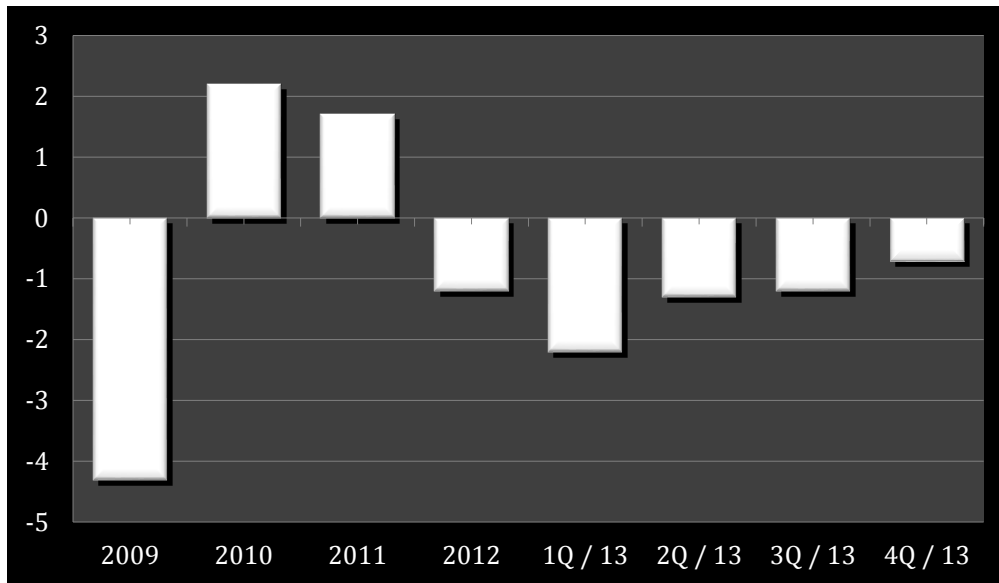
- Dealing with waste
- Revision of sewerage by camera
- Cleaning of sewerage
- Dredging of ponds
- Oil water purification
- Repairing and maintaining a wastewater treatment plant
- Trenchless technology
- Industrial cleaning
- Remediation of environmental burdens

6) External environmental scanning⁵⁶

6.1. Macro environmental scanning

6.1.1 Economical analysis

Chart 10. Percentage Change of GDP



Source: Own processing. Data gained from Czech statistic office

Czech Gross domestic product (GDP) was still in a mild recession in 2013. The decline of GDP in the fourth quarter of the year was revised from – 1.2 % to – 0.7 %. Declining investment activity and weak foreign demand caused the negative development of GDP.

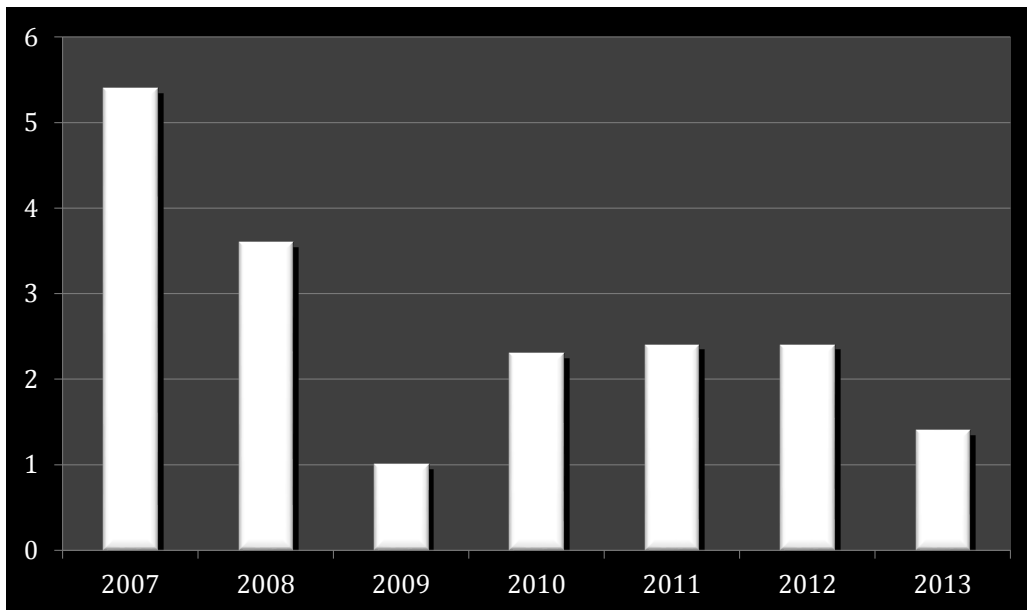
Gross domestic product reached – 0.7% in the end of the year 2013, which is lower than the EU average which reached – 0.3 %. The economies of countries in the European Union declined slightly in the last year, according the latest Eurostat statistics. According to the Czech National bank, the positive increase in GDP from last year is set to continue, and should even achieve a positive value in 2014. The main sources of this increase should be exports, investment, and consumption of household goods.

The problem of GDP is also due to the fact that foreign trade was unfavorable in 2013. While imports of goods and services yearly increased by

2.3%, exports increased by just 0.3 %. This means that the balance of foreign trade decreased by 2 %. This is caused by negative economy development in the European Union, mainly in countries which are key for Czech exports.

Inflation

Chart 11: Inflation in Percentage



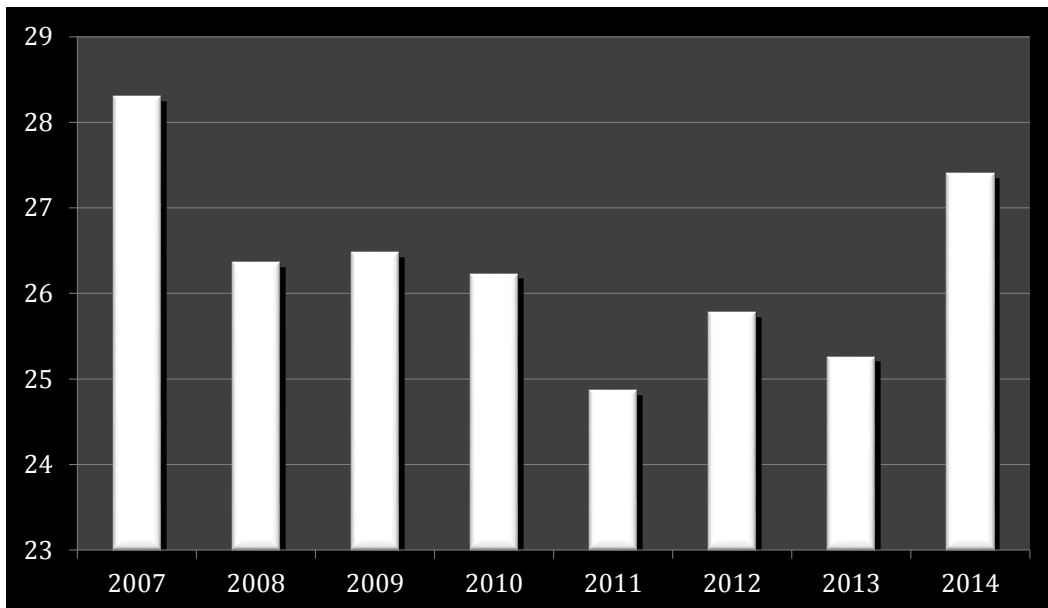
Source: Own processing. Data gained from Czech statistic office

Inflation in February 2014 was 0.2 and remained on the same level as in January 2014. This result was mainly caused by the inflation fluctuation in different sectors. The first fluctuation was noticed in recreation and culture. The increase in recreation and cultural activities mainly affects prices of seasonal holidays and complex service by 3.2 %. In the flat equipment sector, service increased goods by 1,7 %. In health care, goods increased by 1%. On the other hand, the clothing sector decreased by 0.9 %, and footwear by 1.9 %.

Between the years 2007 – 2013, Czech Republic tended to lean on lower and relatively stable inflation. The yearly increase of inflation increase was 0.2 % and this happened mainly because of fluctuation of inflation in different sectors. The main increase was noticed in non-alcoholic beverages and food, and also alcohol and tobacco.

Exchange rate

Chart 12. Exchange rate EUR/CZK



Source: own processing. Data gained from Czech National Bank

In November 2013 the Czech National Bank purposely decreased the exchange rate of the Czech Crown. The reason for that step was to handle deflation and increase Czech exports. Although this isn't standard step from side of Czech Nation Bank, many Czech and international economists were surprised by the timing of this move, because economic indicators were showing an improvement in the Czech economy and the Czech National Bank wasn't forced to do so.

The Czech National Bank announced a fixed exchange rate of 27 CZK/EUR. This statement isn't the aim of the Czech National bank but the tool that is used instead of using interest rates for reaching the inflation aim. The Czech National Bank will hold this attitude until the risk of undershooting of inflation disappears.

6.1.2. Political analysis

Czech Republic is democratic and politically stabile country, which has been a member of the European Union since 2004, and a member of the North Atlantic Treaty Organization, which is an intergovernmental military alliance signed in

1949. Since 2007 it is part of the Schengen area where passport control on the borders doesn't take place anymore.

In March 2013, the second term of Czech President Vaclav Klaus, and Milos Zeman was elected as his successor after winning in the second round of the Presidential election.

In July, Czech special police raided a Government office and accused 7 politicians, including Jana Nagyová, a senior figure in the office of the Prime Minister. It was the biggest incident in Czech politics since 1989. The Prime Minister Petr Nečas resigned, and was succeeded by Jiri Rusnok. In July the President announced the formation of a new government. Later on Parliament voted for the first ever dissolution of Parliament in a historic move, but it failed. In August the Prime Minister received a vote of no confidence in the House of Commons, and so, a few days later a second motion for the dissolution of Parliament succeeded. Out of 200 Member of Parliament, 140 politicians voted for dissolution with the minimum needed being 120. On August 28th, Milos Zeman signed the dissolution and announced a new election which was won by the CSSD party. Since January 2014, Czech Republic has had a new Prime Minister, Bohuslav Sobotka.

6.1.3. Social analysis

The situation in Czech country has changed, especially how the people perceive ecological issues and problems with pollution. These two main issues can help Patok a.s. to get in a better position in the market. The company mainly destroys dangerous waste and provides services of cleaning and rebuilding of old or broken systems. So, from this point of view, the company can predict better potential than it used to.

The problem in Czech society is in education and quality of student. Almost 75 % of the population aged 18 studies at university, which has caused a decrease in the quality of education. Czech politicians wanted to increase the amount of university students in accordance with the Bologna Declaration, and the amount indeed increased rapidly.

Chart 13. Education of the Population in Czech Republic

Education	Percentage of population (%)
Elementary education	16,3
Secondary education without GCSE	35,2
High school	33,7
University	14,6
Without education	0,1

Source: Own processing. Data gained in Czech statistic office.

If the increasing trend of university students continues, the situation with regards to education in Czech Republic will dramatically change. The problem would be that nobody would want to work on lower positions after receiving a diploma from university. The second problem for future employers is the decreasing quality of diplomas. Graduated student have to have perfect knowledge about dangerous waste, not just basic knowledge, which could potentially cause more damage to future employers.

6.1.4 Technological analysis

Technological evolution is going incredibly fast and that brings obsolescence of goods, as well as a decreasing product life of goods. But on the other hand, it also brings opportunities for differentiation on the market and new production possibilities.

If the company wants to stay in line with competitors, they have to invest money in technology that can bring them a competitive advantage and raise their value on the market. In the industry of dangerous waste, the company has to invest in new technology for destroying dangerous waste, and also in modern and efficient systems of cleaning industrial areas, which is very costly.

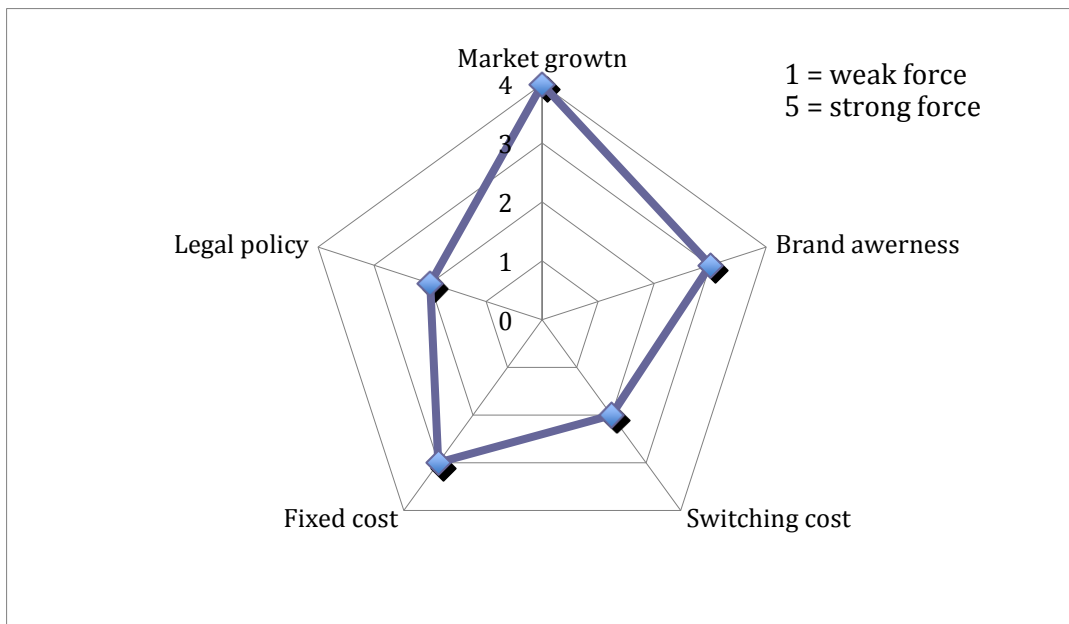
6.2. Industry analysis

6.2.1. Competitive forces

Porter's five forces illustrate how competitive environment is affected by five prominent forces. The forces consist of rivalry among environment, bargaining power of suppliers, bargaining power of buyers, threat of new entry and threat of substitutes. Rivalry among environmental is located in middle of the model and is surrounded by the rest of four forces. The nature of competition is affected by each force. A company's strategies are compressed by competitor's strategies in order to keep its competitive advantage.

6.2.1.1. Threat of new entrants

Chart 14. Threat of New Entrants



Source: Own processing.

The threat of new entry is rather low despite the lack of natural barriers. The attracting factor for many companies is the potential market growth. After the economic crisis in Europe, more companies are willing to invest in reconstruction and cleaning of sewers that are in bad condition. The increased demand has shown

the lucrative potential of the market. That is the reason why market growth doesn't have to be considered as a weak threat of new entrants.

Another barrier is brand awareness. Buyers connect brand awareness with performance, which is an important factor in charging bigger margins and gaining a bigger market share. Brands such as Patok a.s. and other leaders in business bring difficulties for entry of a new company in the market hoping to be successful.

Switching cost can be considered as a threat of new entrants as well. On the other hand, it is not as significant as previous ones because the company has options to choose raw materials from a large amount of suppliers.

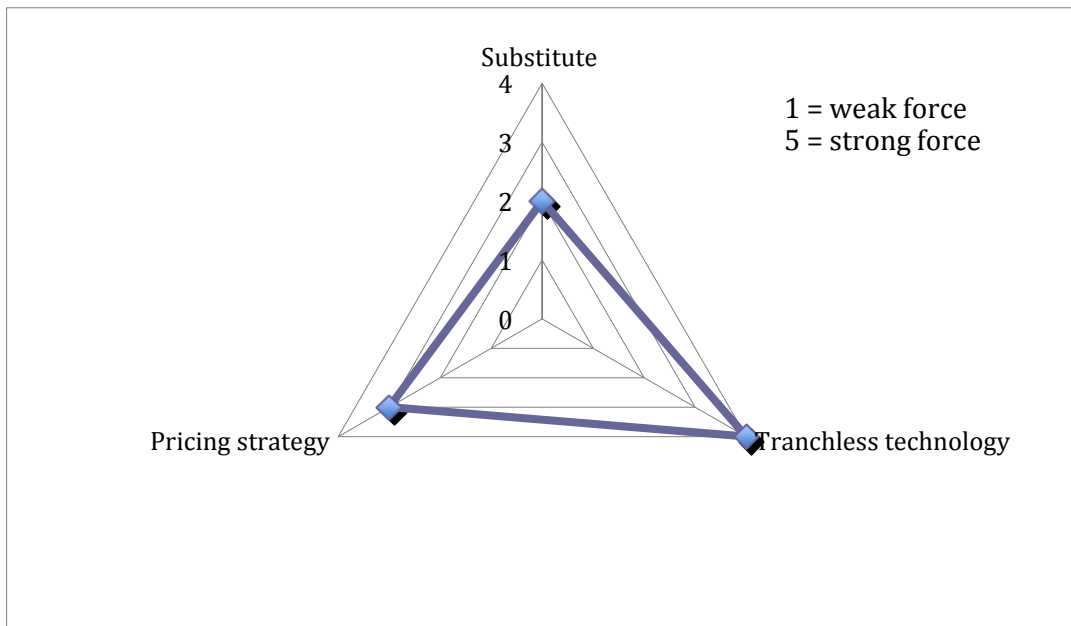
Another significant threat of new entrants is fixed costs. This type of business requires a large amount of capital in order to build the facility and fleet of cars, which are therefore obstacles of entrants to the market. But companies have to be aware of the fact that business plans can attract investors who cover all expenses and the barrier of capital can disappear.

Legal barriers set up by governments are very important and there are obstacles to get license for working with dangerous waste. The Czech government came up rules, which are described in law 185/2001 Sb. In this regard companies have to respect the processing, packaging and use of dangerous waste. This law needs to be followed by companies in order to get a license for processing dangerous waste. To summarize all mentioned threats, I consider the threat of new entrants as a weaker factor.

6.2.1.2. Threat of substitutes

The chart below describes most important factors affecting the threat of substitutes.

Chart 15. Threat of Substitutes

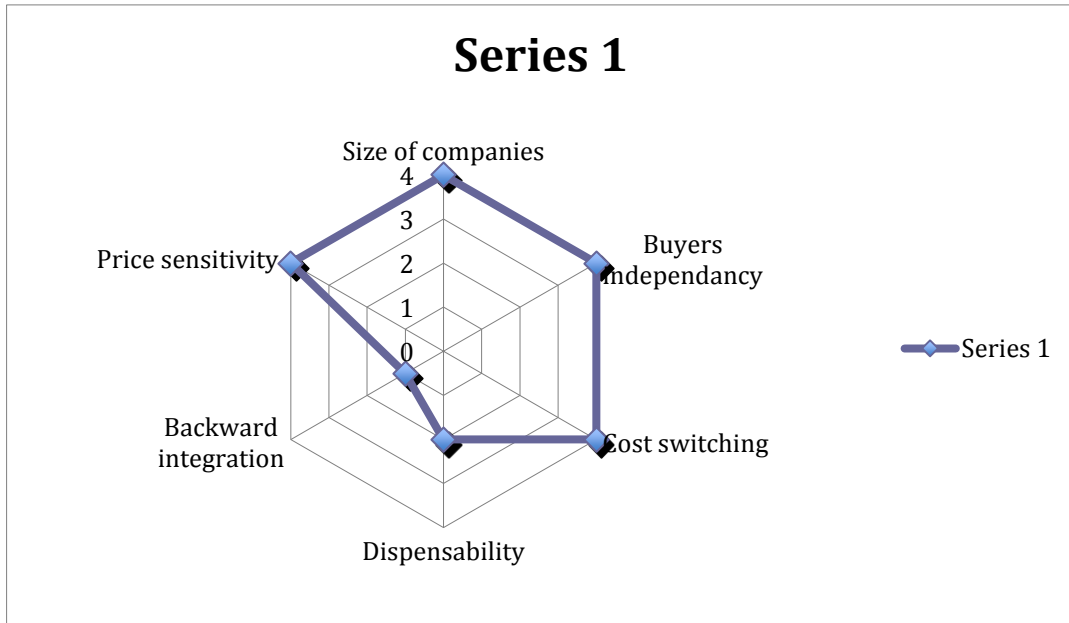


Source: Own processing.

The threat of substitutes is not high in this particular industry due to the specific demands which are required. All companies in this business provide more or less the same service, and the market doesn't provide any reasonable substitutes. The only difference is in performance of machinery used. Patok a.s. is one of the top companies, and also own the most sophisticated machinery on the Czech market. Therefore, it has a competitive advantage. Companies are affected more by pricing strategy rather than substitutes. The only exception in business is trenchless technology which Patok a.s. doesn't control as good as leaders in business. Trenchless technology cuts costs to buyers as well as suppliers. Leaders in trenchless technologies have a competitive advantage due to the high margin and have space for adjusting the price. On the other hand, the technology puts a high demand on labor skills and machinery.

6.2.1.3. Bargaining Power of Buyer

Chart 16. Bargaining Power of Buyers



Source: Own processing.

The fact that the economy got over the financial crisis increased the purchasing power of buyers within more demanding requirements and needs. Buyers independence has been marked with an increase in consumption of services as a result of the higher profitability of companies. The most important buyers in the industry are big companies operating on the Czech market and they are willing to spend a reasonable amount of money. The problem is low switching cost policy. Companies usually list tenders which evaluate important aspects such as price and the good name of the company. But price is the crucial aspect, and due to the low barrier of switching cost, they can choose a more efficient company next time. Therefore the tendency to switch suppliers is strong, and bargaining power of buyers is really high.

The weakness of buyer's power is dispensability. Buyers have to hire special companies to deal with the dangerous waste, or clean its pipelines in order to be efficient and profitable. Therefore, buyers are dependent on suppliers.

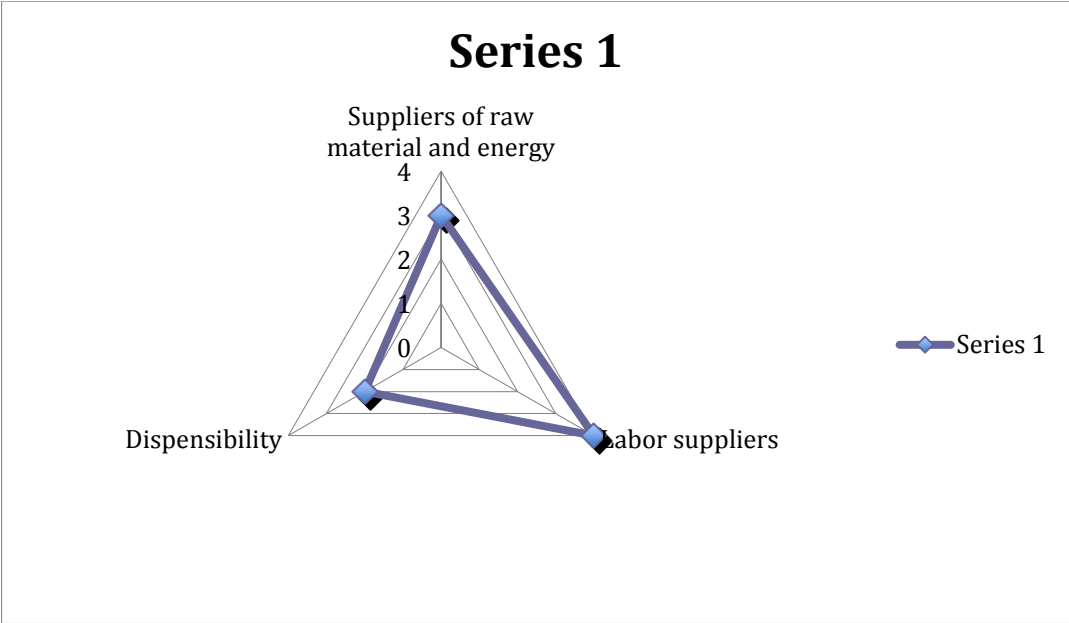
Backward integration of buyers into business with dangerous waste is rather unlikely because of differentiation of these two businesses. On the other hand,

buyers try to save costs on small reconstruction and cleaning their pipelines by doing it on their behalf. Price sensitivity is considered as weakness of industry despite the fact that it slowly but surely increases buyer's profitability.

To sum up, all the above factors of bargaining power of suppliers lead to the high bargaining power of buyers.

6.2.1.4. Bargaining power of suppliers

Chart 17. Bargaining Power of Suppliers



Source: Own processing.

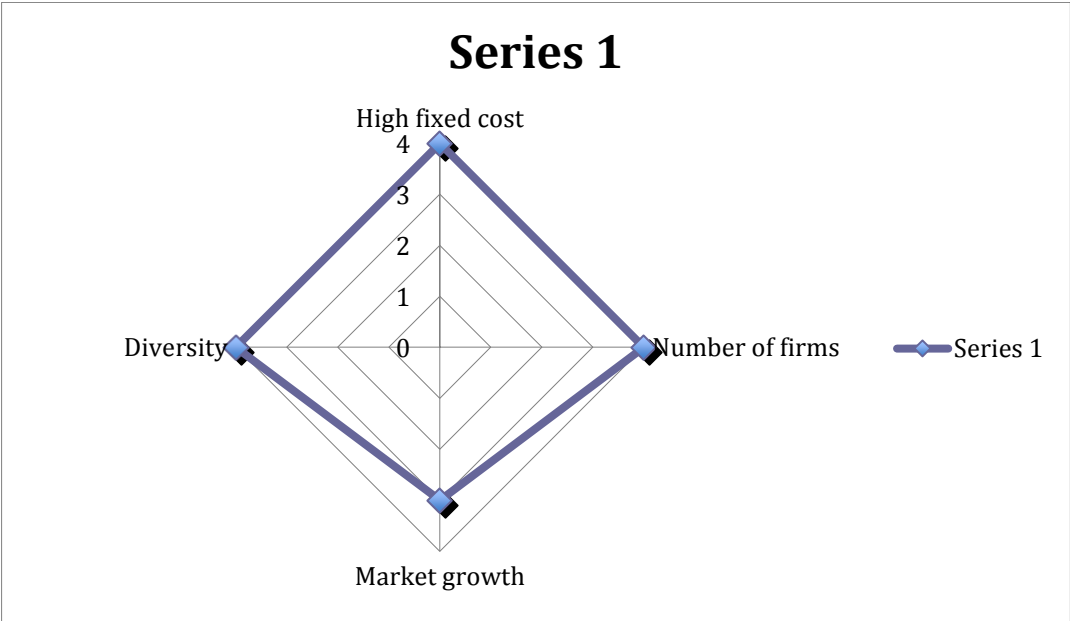
The third group which significantly affects a company's industry is the group of suppliers. If we speak about bargaining power of suppliers, we mean suppliers of raw material and energy needed for providing service such as processing of dangerous waste and trenchless technology which reached 25 % of total cost of the company. But there is one supplier who is the most important one, and that is labor. Labor makes about 38 % of total costs of companies in this industry and therefore their power is crucial. But on the other hand, the Czech trend is that there are more people who are actively looking for a job and do not have one, than job places, so bargaining power of suppliers was not evaluated as strong.

Of less importance is the fact of dispensability, which weakens bargaining power

of suppliers. The equipment is ordered from foreign markets, especially from Germany, in order to keep step or even have a competitive advantage over competitors. Even though there are only a few suppliers on the market, companies can reduce their power due to the one-time contract for equipment which provides an opportunity to switch suppliers.

From what I have said about the bargaining power of suppliers, I consider their power to be rather low.

6.2.1.5. Rivalry Between Established Competitors



Source: Own processing.

Rivalry between established competitors is affected by high fixed costs, a relatively large number of firms, small market growth, and lack of diversity. All mentioned factors are the main drivers of rivalry between companies. The economy of scale increases rivalry in business due to the fact that most of the total costs are fixed costs. And companies have to perform near to capacity in order to obtain lower unit costs. Therefore, companies have to sell all services of products. This attitude increases rivalry in business by trying to gain a bigger market share. Many companies operate in this business which increase rivalry as well. The problem is that companies often fight for the same customers, which leads to pricing strategy and lowering the margins. Patok has 25 % of market share in

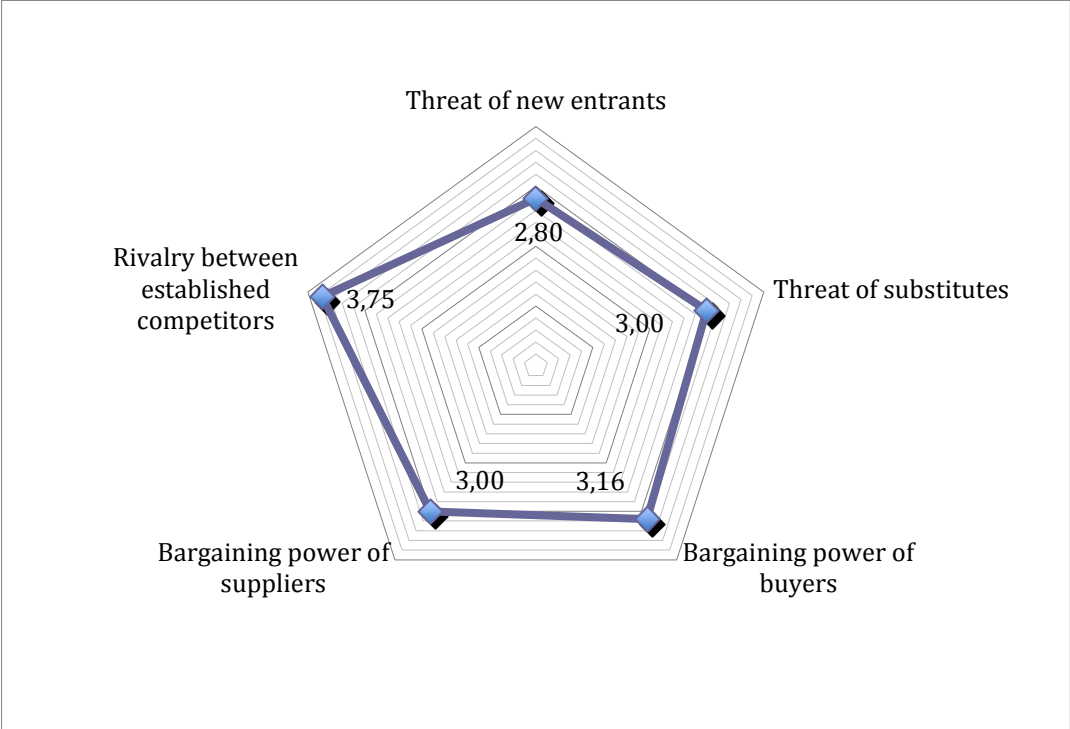
business with dealing with dangerous waste which classifies them among the top 4 leaders in the industry. But on the other hand, there is pressure to become the top leader of the industry, which increases the rivalry among the other top leaders. In times of crisis, buyers want to save cost and invest only in inevitable areas because of lack of capital. Nowadays, with the crisis being over, buyers are investing in reconstruction or demand general cleaning, which slightly increases the market growth, but companies are not able to improve their revenues as well as before the crisis.

The lack of diversity increases rivalry between firms due to the similarities of their service. Companies have to fight in order to gain customers. This usually ends in a price war.

6.2.1.6. Impact of five forces analysis

The chart below analyses the impact of Porter’s five forces to the business of dealing with dangerous waste in the Czech market.

Chart 18. Impact of Five Forces Analysis



Source: Own processing.

After summarizing and evaluating all the forces of Porter’s framework, the final score of 3.5 indicates the explanation that the industry is rather unattractive due to the high number of competitors and their pricing strategy, as well as the

strong bargaining power of buyers.

In order to understand profitability of the business and make the company more efficient, it is necessary to find the Key success factors. The Key success factors consist of two parts. First, it determines who the customer is and what their wants are. Our main customers are big industrial companies, which prefer low prices with high quality service. The second part describes the drivers of surviving the competition. The company focuses on market share as well as the cost management. Patok a.s. adapts to new customers requirements. All mentioned drivers lead to these Key success factors:

- Operational efficiency
- Brand awareness
- Expansion
- Market share

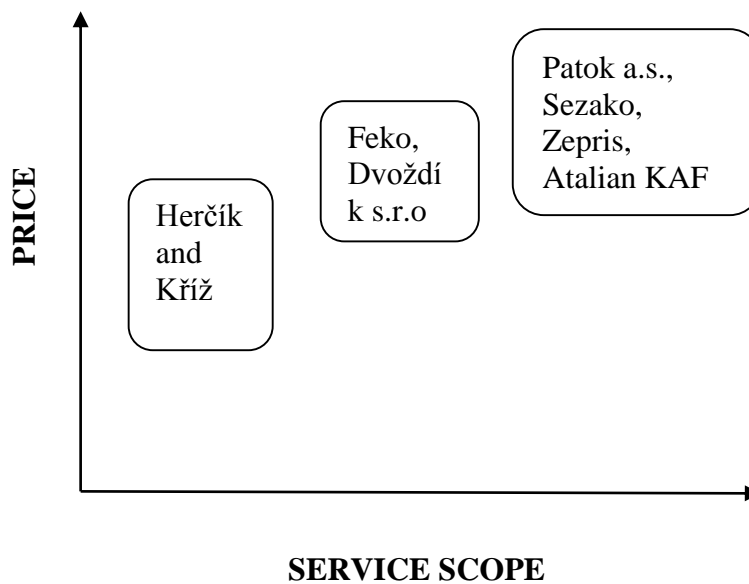
6.2.2. Intra industry analysis

Intra- industry analysis is divided into three main parts:

- Strategic groups
- Competitor analysis
- Segmentation

In order to find out which strategy group our company Patok a.s. is in, it is necessary to make a map of strategic group first. The map shows the companies operating the industry of dealing with dangerous waste according to two criteria; price of their services, and provided service scope. This simplified map is presented below:

Chart 19. Strategic Group



Source: Own processing.

Patok a.s. belongs to the group of companies which offer higher prices of service with a higher provided service scope, and Patok a.s. shares this group within its main competitors- Sezako, Zepris, Atalian KAF facility. Competitors of our company are obviously those companies which are focused on big industrial companies with the highest levels of demand, and who charge the highest prices for the highest standard offered. All these three competitors have higher revenues than Patok a.s; Patok's revenues exceeded 177 million CZK, Sezako's revenues exceeded 97 million CZK (Sezako Annual Report, 2013), Atalian KAF facility had revenues of 242 million CZK (Atalian KAF facility Annual Report, 2013) and Zepris had even higher revenues, 544 million CZK (Zepris Annual Report, 2013,).

Patok a.s. should consider the positions of these competitors as dangerous. Patok a.s is providing a wide service. Companies fight for market share, and they using pricing strategy to reach success in this particular business. The only way of reaching a bigger market share is to set up the price very precisely due lack of differentiation on market. The only exception is trenchless technology, were Patok a.s. lags behind the competitors and the company can bet on differentiation.

Competitor Analysis

In the cluster where Patok a.s. is, we can find companies which are located mostly in Czech Republic, and have only a few contracts abroad, particularly in Slovakia and Poland. The strategy of these companies is to provide high quality service in order to dominate market share. Our main competitors are Zepris s.r.s, Sezako s.r.o. and Atalian KAF facility. Potential competitors could be Feko, Dvoždík s.r.o which is from the cluster of higher-priced companies who can extend their portfolio of provided services.

The objective of these companies is to become leaders in the Czech market, providing a wide range of premium quality services at a reasonable price. The assumptions about our groups are that all the competitors within the cluster provide high quality services, have contracts abroad, and that only wealthy customers can afford trenchless technology so companies are forced to do a huge range of services which ensure sustainable profits for a long period of time. Their main strength is their stable position in the market with a relatively long tradition. Most of Patok's competitors are also bigger in important indicators. You can see the comparison in the table below. Their biggest weakness is high costs and sensitivity to external influences.

Chart 19. Competitor Analysis

Companies	Duration of business	Revenues in 2012 (t. CZK)	Profit or Loose	Countries
Patok a.s	18	177 208	2 705	2
Zepris	17	544 288	19 207	
Sezako	20	97 920	- 520	2
Atalian KAF facility	6	242 074	7 235	3

Source: own research

Sezako Is one of the most significant companies doing business with dangerous waste in Czech Republic and Slovakia. It is considered among the top 3 perspective companies in this particular business.

The priority of the company can be seen in providing complex service with high quality through the most advanced technology available.

The core competence of Sezako is their technology such as new camera technology, IBAK 3D Panoramo, a special camera for using in explosive environments, a fleet of cars for cleaning large diameter sewers.

The company has built new branches in Trinec, České Budějovice, Praha and Hradec Králové in order to be more sufficient and flexible.

Last year, the company went through gradual consolidation after its development. Sezako rented new spaces for storage of heavyweight equipment, stores and hinterland for clients.

The company's goal for next few years is to spread their portfolio of services, especially in cleaning by streams of walking excavator. A significant task for companies is to hold new technologies. Industry pleasure to companies to use new technologies especially for sewerage and trenchless technology. Sezako has the ambition to promote their own employees who have particular skills for providing services with certificate in order to be more sufficient. Their last aim is to introduce a system of non-stop accident services.

Zepris is a leader on market and annually achieves the biggest revenues in this line of business, mainly because of trenchless technology where the company has a competitive advantage. After a significant year in 2011 where revenues went up enormously, the company saw a marked decrease in revenues in the last 3 years. This result is taken as fulfilling their aims because of the downward trend in the market. Despite this, the company hasn't decreased price and profit margin, but the intention of the company is to extend their portfolio of services and focus more on the private sector.

The company's goal is to focus on stabilization of revenues and, more precisely, extend their portfolio of customers in the private sector. In the private sector, Zepris sees a blind spot due to the new grants which are coming from the Czech government, which will take place mainly in summer time. The private sector should provide space for stabilization of revenue in the area of new developer projects and business or logistic areas. On the other hand, it carries the risk of payment discipline and higher demand of investors. In parallel with an increase in business, Zepris will continue in the optimization of production and purchase in

order to keep step with competitors. Zperis reveal new technology of water pipeline cleaning and because of this, the company expects new customers in this area with less competition. The company believes that they will gain more contracts and increase profit margins in this area.

Atalian KAF facility has a wide range of services. One part of their services is the cleaning of pipelines and, as a result, are Patok's direct competitors. The company entered a new multinational group ATALIAN. ATALIAN KAF facility deepens relationship with group ATALIAN and extending their portfolio of provided services which brought improvement in place of service such as monitoring of customer satisfaction, unification of suppliers for purchasing materials, products and thus decreasing costs. From an economic point of view, the company achieved satisfactory results of 242 million CZK in revenues and over 7 million CZK of profit. Also, the company has decreased their liabilities with banks. In future, the company will deepen their relationship with ATALIAN group and extend the portfolio of service. The company will focus on high quality of provided services at a reasonable price, which is their strategy for the future. The intention of management is to be environmentally free. Public research showed that the company provides high quality service even though they didn't invest in research and development.

Segmentation of the business in dealing with dangerous waste is aimed on most profitable segments, which are:

- Products
- Markets
- Customers

When we try to identify the most profitable products, it is necessary to make a list of products offered within the business first: Construction – trenchless technology, engineering – new technological options, cleaning and video inspection, cleaning by technology, dealing with dangerous waste. As the most

profitable sector of construction, trenchless technology was evaluated based on my own research and the study of relevant materials and annual reports of companies in this particular business. Trenchless technology provides space for higher margins which are crucial to success.

Another question is what the most profitable market is. Since we are looking at the market with regard to profitability, I believe that Eastern Europe is the most profitable sector for Patok. The problem of this business is that it is extremely costly. The Annual Report of Patok confirms this fact with information about company revenues. Company revenues exceeded 249 million CZK in 2011 in comparison with the year 2010, when Patok reached 177 million CZK due to a lack of contracts created in Eastern Europe, namely in Slovakia. This region has a huge amount of potential customers and economies are growing in the region.

The economy of Eastern European countries are growing significantly which brings opportunity. Big companies are willing to invest money and Patok a.s. can profit from this attitude and attract more customers. Another very important fact is that in the region, labor is relatively cheap and even other inputs are cheaper than in Western Europe (raw material, etc.). But of course, expansion into other continents is necessary in order to minimise the impacts of possible natural disasters and to spread potential risk.

The third part of segmentation is looking for the most profitable customer. Since we proved that individuals build only a small part of revenues, we see that the most profitable customers are corporate ones. Individuals and small companies make up about 30% of customers in the whole sector, and in the case of Patok it is even more 70%.

7) Internal analyses

Internal analysis focuses on factors that affect a company from the inside. Companies operate in the same environment and they differ due to their different strategic capabilities. Internal analysis should help to find the strengths and weakness of Patok a.s.

7.1. The value chain

This part will focus on revealing the strength and weaknesses of the value chain. In the following chapters, I will break down the value chain and try to analyze it. The value chain is going to be modified due to an atypical business.

7.1.1. Service

Our company focuses on services related with dangerous waste. These services consist of inbound logistic operations and outbound logistics.

The main services provided by the company are Greening, Cleaning by technology.

The company keeps pushing the barriers in this industry and trying to improve the process of gaining, gathering, separating and liquidation of dangerous waste in accordance with the law. Patok a.s. Operates mainly in specific area of dealing with dangerous waste. The company owns a fleet of cars for transportation of dangerous waste up to 24m³ and also containers up to 14 tons. The company has new technology for processing oily water. This system, known as Olmeister, can separate oil from water and turn it into pure water for reuse. The oil is transported to Patok property and dealt with in oil-cleaning facilities.

The company also provides services in Greening. They focus on environmental protection and its improvement. Patok's equipment allows them to operate in places where normal equipment can't. The company's capabilities are pushed higher in order to save the environment. For groundwork in difficult areas and water, walking excavators such as MenziMuck are used, which uses ecologically free oil in case of breakage. All this equipment and technique helps

with remediation of environmental burdens. Remediation works are focused on destroying old ecological burdens or remediation works in the case of an oil leak.

The company is also proposing to provide greening of industrial areas and its realization. They have come up with a solution which decreases dust and other aspects negatively acting on the environment and health and safety in the work place.

7.1.2. Marketing and sales

Marketing is organized differently than in normal companies selling products or providing services. Patok provides a special service, and because of this, they use marketing in a different way. They don't use large advertising for all services, but they focus only on targeting people who needs their service. Most of their profit is gained through contracts with big companies. So Patok has a different approach to reaching these companies. Patok a.s. have sales managers who are trying to find companies that potentially need their services, and negotiate with them. The second way of finding new buyers is to sign and win tenders, which are presented by state-owned companies. Sales managers also maintain the contacts and try to increase the portfolio of services provided.

In recent years, Patok a.s. has become well known as sub-supplier of big companies, so the company has put a lot of effort into maintaining those relationships. Besides maintaining and seeking out new companies, sales managers have to prepare all materials for tenders, conferences and fairs.

Company uses marketing mix as follows:

- Product (Service) – Greening, cleaning by technology, greening of industrial areas
- Price – Price is set up according to cost method in combination with regard to competitor's prices. Price level is equal to or little higher than competitors price, but with new technology and efficient results.
- Propagation - Sales managers provide the propagation to big companies who represent majority of company profits. A small amount of profit is gained by individuals who need Patok's services, and they are

reached by catalogue or just by good performance in this field. The company also provides support and donations to local organizations (ice hockey team, cultural support etc.), which increase the good name of the company.

- Services are spread all around the Czech republic.

7.1.3 Procurement

The company doesn't work on any research projects or invest in research and development. The character and size of the company doesn't allow for participation in these types of projects. On the other hand, the company has skilled workers who are able to flexibly react to problems and bring up new innovative solutions at a lower cost. The experience of their workers participates in raising the value of their services.

The company is one of the leaders of technology in Czech Republic. But all technology was gained by purchasing from the more developed world market, mainly Germany. The company gained a competitive advantage by following the German model and taking inspiration from there. All useful trends were converted and applied to the domestic market in order to keep its position on the market in this field.

7.1.4. Human resource management

Patok a.s. has a precisely defined structure and clear description of workers competences and rules. Workers have to manage day to day tasks as well as occasional task which can be obtained in case of absence. Responsibility of given occasional task is set up clearly.

The company is known in the region for having very good salary conditions in comparison with other companies. The region of Louny suffers from lack of jobs in all levels of education.

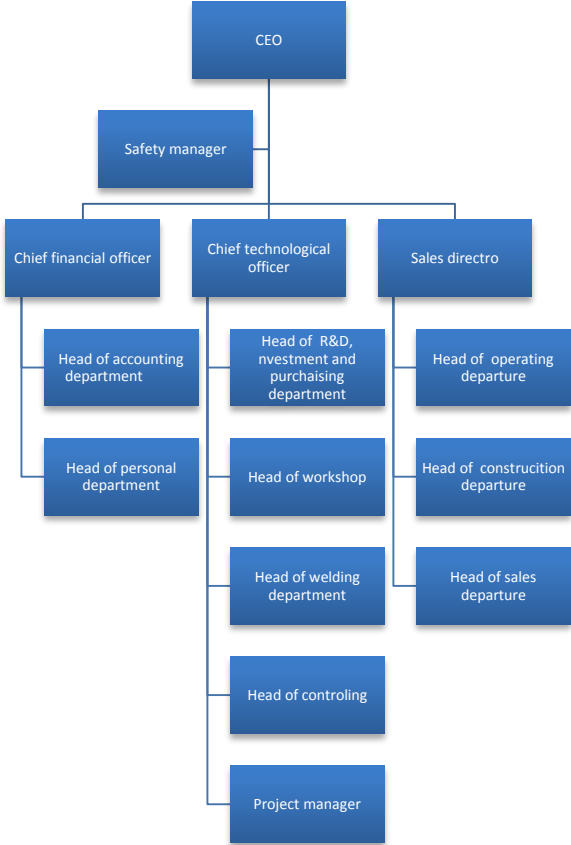
The company tries to impress a feeling company spirit on all its workers in order to fulfill the company's objectives. The company can reach this aim only through the contribution of all workers in the company. That is the reason why the company demands a perfect flow of information from CEO to workers, as well as

the opposite way. The managers of the company have a briefing every day and a main meeting every week. Managers coordinate workers day-to-day, so the company gives the opportunity for workers to contribute to fulfilling the aims and bring innovative ideas, which can be discussed afterwards.

Nowadays, the company employs over 100 people . There tends to be growth year after year. We can distinguish employees into these main categories :

- Top management – consists of CEO of company and members of board. Their task is to set the mission and vision of company and build the long-term strategy.
- Managers of company – their task is to fulfill the strategy and plan the short- term strategy and also set up day-to-day work for workers on lower level
- Workers – fulfilling the task, which was given to them and cooperate with managers in order to come up with innovative solutions, which can help solve particular problems.

Chart 20. Patok’s Hierarchy



Source: Own processing

7.1.5. Information technology

The company utilizes information system within idea of increase productivity of evidence, coordination the orders.

In this area we can say that the company effort to implement new company culture, consisting of connecting all documents with its information system, marked a significant improvement. The company abbreviates the processing of date in areas of purchasing and quality management, which significantly contributes to the efficiency of the company. These days, the company communicates through IT technologies and all-important information is written there. This technology enables them to convey all information very quickly and find out who is responsible for particular parts of a project. The Information technology is based on team management and is tapped to process bases of the company.

7.2. Financial analysis

Financial analysis has a significant impact on strategy making. The methods that will be used are relevant for strategy making and are clear for another type of processing.

7.2.1. Horizontal and vertical analysis of indicators

Horizontal and vertical analysis of balance sheet

Horizontal and vertical analysis of assets

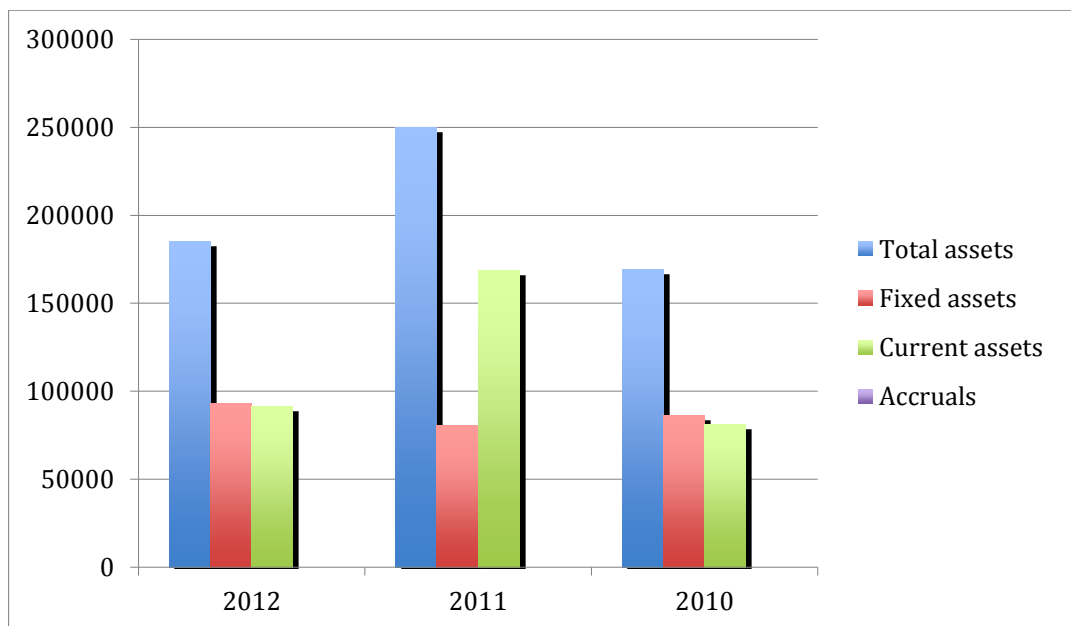
Chart 21. Horizontal analysis of assets

Indicators (in thousands CZK)	2012	2012/2011	2011	2011/2010	2010
Total assets	185 251	74 %	250 259	147 %	169 226
Fixed assets	93 141	116 %	80 446	93 %	86 478
Intangible fixed assets	158	478 %	33	55 %	60
Tangible fixed assets	92 983	116 %	80 413	93 %	86 418

Current assets	91 216	54 %	168 688	207 %	81 328
Inventories	5 599	392 %	1 425	31 %	4 480
Receivables and other assets	35 141	41 %	85 533	183 %	46 598
Cash on hand, checks, bank balances	50 476	62 %	81 730	270 %	30 250
Accruals	894	79 %	1 125	79 %	1420

Source: Own processing. Data gained from Patok's balance sheet

Chart 22. Horizontal Analysis of Assets



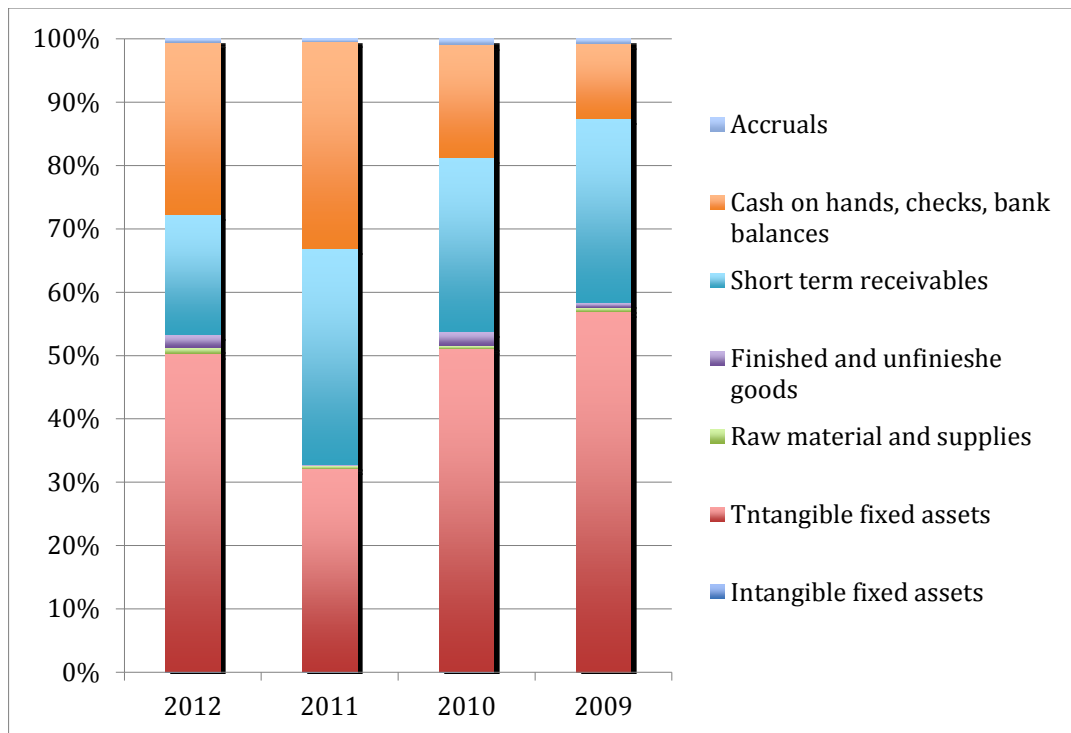
Source: Own processing.

Chart 23. Vertical Analysis of Assets

Indicators (in thousands CZK)	2012		2011		2010	
Total assets	185 251	100 %	250 259	100 %	169 226	100 %
Fixed assets	93 141	50 %	80 446	33%	86 478	51 %
Intangible fixed assets	158	0,1 %	33	0,01 %	60	0,01
Tangible fixed assets	92 983	49,9 %	80 413	32 %	86 418	51 %
Current assets	91 216	50 %	168 688	67 %	81 328	48 %
Inventories	5 599	3 %	1 425	0,5 %	4 480	3 %
Receivables and other assets	35 141	19 %	85 533	34 %	46 598	26 %
Cash on hand, checks, bank balances	50 476	27 %	81 730	32 %	30 250	18 %
Accruals	894	1 %	1 125	0,49 %	1420	1 %

Source: Own processing. Data gained from Patok's balance sheet

Chart 24. Vertical Analysis of Assets



Source: Own processing.

Horizontal analysis, which is represented by changes in amount of balance sheet items over a period of time, is a useful tool for evaluating current trends. The value of total assets came in years 2010 -2012 through following development. After the crisis in 2008, the total assets of the company increased. In 2011 the company saw a marked increase of 47 % in total assets of the company.

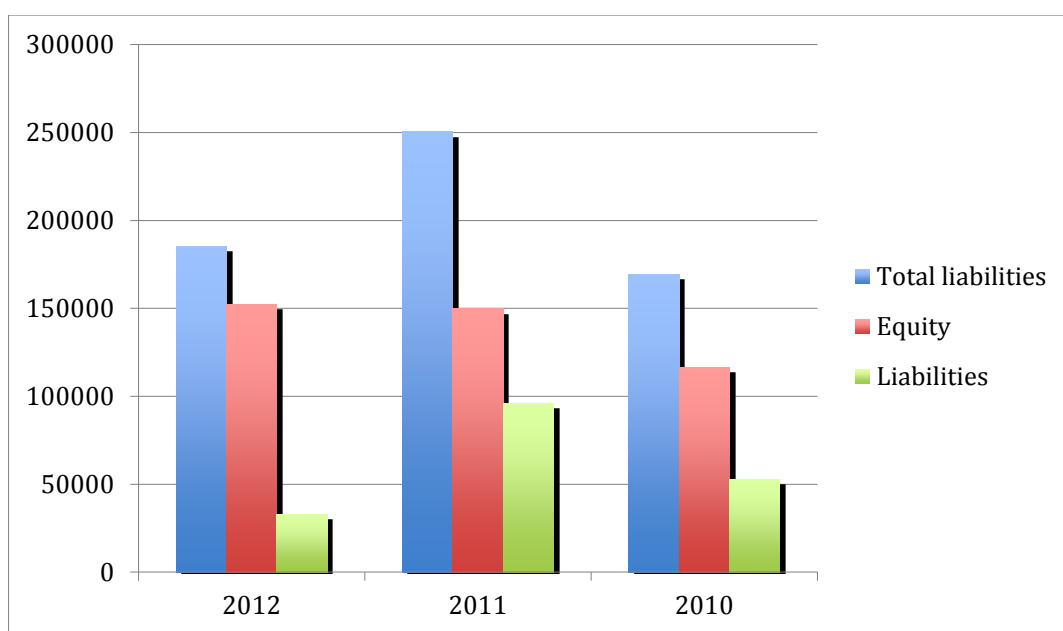
The Vertical analysis reports the balance sheet for each year, and is expressed by color changes in one column. From the chart we can see how the total assets copy the development of current assets. Also, the graph shows that company's fixed asset doesn't develop and stay the same. The main contributor to change was the Receivables and other assets, which increased by 83 % and cash on hand, checks and bank balances, which increased by 170 %. The amount of accruals in this case doesn't affect the development of total company assets. . On the other hand, in 2012 the company decreased their total assets by 26 %, even though fixed assets increased by 16 %. Once again, this was caused by the development in current assets, which decreased by 46 %. This decrease was caused mainly by Receivables and other assets which decreased by 59 % and cash on hand, checks and bank balances, which decreased by 38 %.

Chart 25. Horizontal and Vertical Analysis of Liabilities and Equity

Indicators (in thousands CZK)	2012	2012/2011	2011	2011/2010	2010
Total liabilities	185251	74 %	250259	148 %	169226
Equity	152368	102 %	149663	129 %	116442
Common stocks	96000	100 %	96000	100 %	96000
Funds from retained Earnings	4883	151 %	3224	118 %	2727
Retained earnings from previous period	48780	282 %	17258	220%	7827
Retained earnings form current period	2705	8 %	33181	334 %	9928
Liabilities	32842	34 %	96092	182 %	52708
Reserves	2531	102 %	2472	271 %	909
Long-term liabilities	11821	86 %	13775	106 %	13025
Current-liabilities	15599	21 %	72887	263 %	27749
Loans	2891	41%	6958	63 %	11025
Accruals	41	1%	4504	12500 %	36

Source: Own processing.

Chart 26. Horizontal and Vertical Analysis of Liabilities and Equity



Source: Own processing.

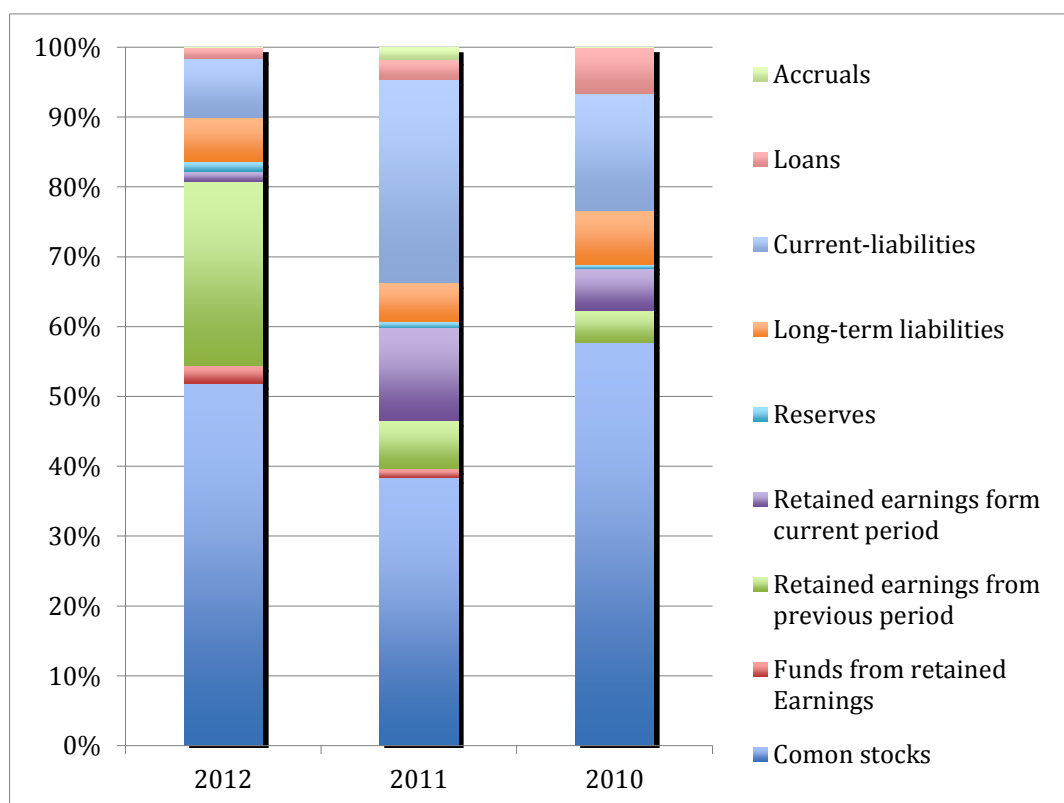
Chart 27. Vertical Analysis of Liabilities and Equity

Indicators (in thousands CZK)	2012		2011		2010	
Total liabilities	185251	100 %	250259	100 %	169226	100 %
Equity	152368	82 %	149663	60 %	116482	67 %
Common stocks	96000	52%	96000	38 %	96000	57 %
Funds from retained Earnings	4883	3 %	3224	1 %	2727	2 %
Retained earnings from previous period	48780	26 %	17258	7 %	7827	5 %
Retained earnings form current period	2705	2 %	33181	13 %	9928	6 %

Liabilities	32842	18 %	96092	38 %	52708	31 %
Reserves	2531	1 %	2472	1 %	909	1 %
Long-term liabilities	11821	6 %	13775	6 %	13025	8 %
Current-liabilities	15599	8 %	72887	29 %	27749	16 %
Loans	2891	2 %	6958	3 %	11025	7 %
Accruals	41	0 %	4504	2 %	36	0 %

Source: Own processing.

Chart 28. Horizontal and Vertical Analysis of Liabilities and Equity



Source: Own processing.

Development of total liabilities is shown in the previous tables and charts, and it copies the development of total assets. Since the crises, the value of Equity increases every year. A significant increase happened in 2011 when company equity increased by 29 %. This growth was mainly caused by Funds from retained

earnings, which increased by 18 %, retained earnings from the previous period, which increased by 120 % and retained earnings from the current period, which saw the most significant increase of 234 %.

For the development of total liabilities, is mainly responsible the development of liabilities where was marked significant changes. In 2011 Company increased liabilities by 82 % mainly caused by increasing current liabilities by 163 % and long term liabilities, which increased by 6 %. In 2012 liabilities rapidly decreased by 66 %. This was mainly caused by a decrease in long-term liabilities which decreased by 14 %, current liabilities which decreased by 79 %, and loans which decreased by 50 %.

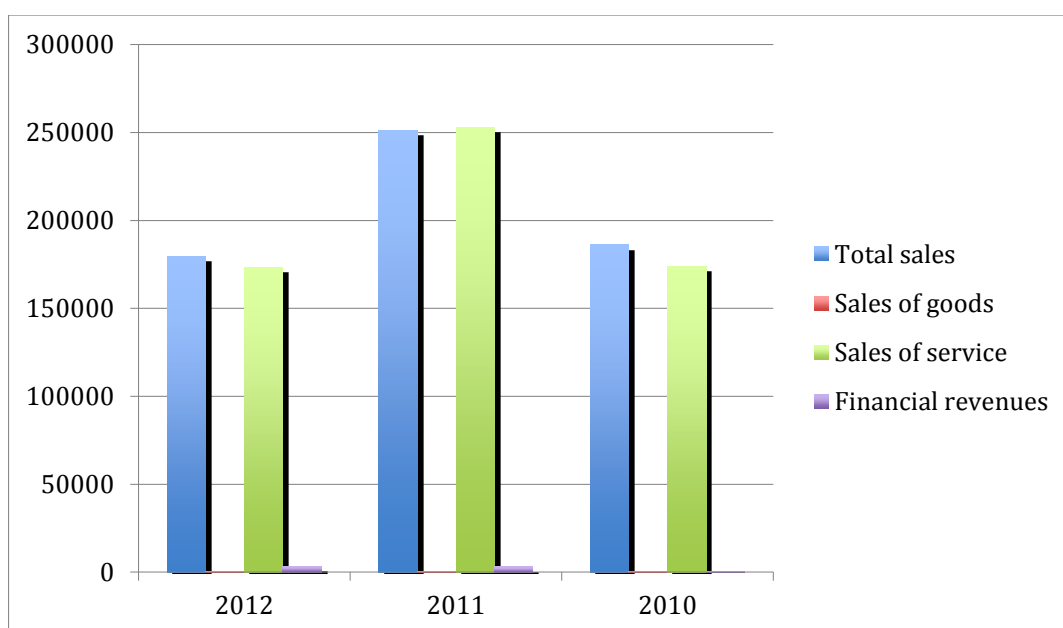
Structure of liabilities was caused by differences in resources of coverage. The company increases equity annually. Liabilities don't have any pattern of development in last 3 years.

Chart 29. Horizontal Analysis of Sales

Indicators (in thousands CZK)	2012	2012/2011	2011	2011/2010	2010
Total sales	182891	72 %	254090	136 %	186493
Sales	179643	72 %	251173	135 %	186068
Sale of service	173162	69 %	252666	145 %	174110
Sale of goods	5	19 %	27	122 %	22
Changes in inventories	3486	- 99 %	- 3498	- 141 %	2483
Activation	556	70 %	796	153 %	520
Other Operating Sales	2434	205 %	1182	13 %	8932
Financial income	3248	111 %	2917	686 %	425

Source: Own processing

Chart 30. Horizontal Analysis of Sales

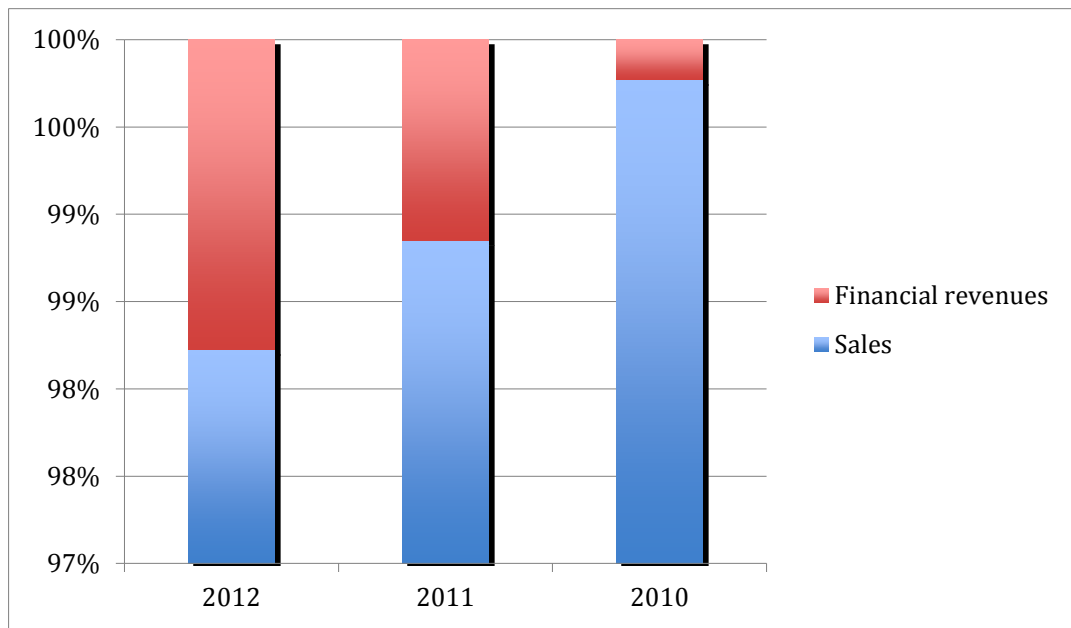


Source: Own processing.

Chart 31. Vertical Analysis of Sales

Indicators (in thousands CZK)	2012		2011		2010	
	Value	%	Value	%	Value	%
Total sales	182891	100 %	254090	100 %	186493	100 %
Sales	179643	98 %	251173	99 %	186068	99 %
Sale of service	173162	95 %	252666	99%	174110	93 %
Sale of goods	5	0 %	27	0%	22	0 %
Changes in inventories	3486	2 %	- 3498	- 1%	2483	1 %
Activation	556	0,1 %	796	0,5 %	520	0 %
Other Operating Sales	2434	0,9 %	1182	0,5 %	8932	5 %
Financial income	3248	2%	2917	1%	425	1 %

Chart 32. Vertical Analysis of Sales



Source: Own processing.

Total sales marked differences between years 2010 -2012. The table shows that the company grew by 36 % in 2011. It was mainly caused by sales of service, which increased by 45 %. The reason for the increase is that the company gained a new contract in Slovakia. In 2012 the company marked a decrease in total sales by 28 %. This decrease might be due to sale of service, which decreased by the same amount as total sales. Decrease of total sales and sales were caused by finishing the contract in Slovakia. Sales in Czech Republic remained on the same level. The structure of Sales during years 2010 – 2012 is almost the same. The company gained more than 98 % of sales from Sales of service, which is the objective of business.

Horizontal and vertical analysis of costs

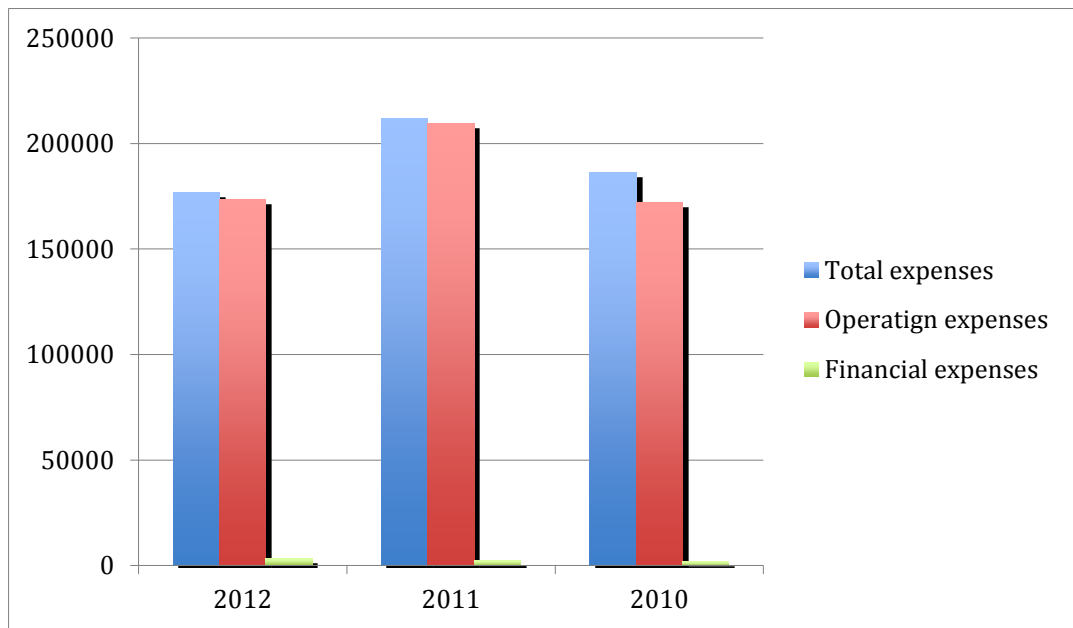
Horizontal analysis of cost

Chart 33. Horizontal Analysis of Costs

Indicators (in thousands CZK)	2012	2012/2011	2011	2011/2010	2010
Total expenses	176954	83%	211944	122 %	174110
Operating expense	173515	83%	209515	122 %	172060
Cost of good sold	5	45 %	11	110 %	10
Cost of service sold	87122	77 %	113095	119 %	94527
Personal expenses	69636	88 %	79209	138 %	57434
Fees	1278	110 %	1158	108 %	1070
Depreciation of fixed assets	9238	92 %	9596	113 %	8525
Net book value of sold good	53	9 %	568	102 %	5557
Change in reserves	584	37 %	1559	199 %	785
Others operating expenses	5599	129 %	4319	104 %	4152
Financial expenses	3439	141 %	2429	118 %	2050

Source: Own processing.

Chart 34. Horizontal Analysis of Costs



Source: Own processing.

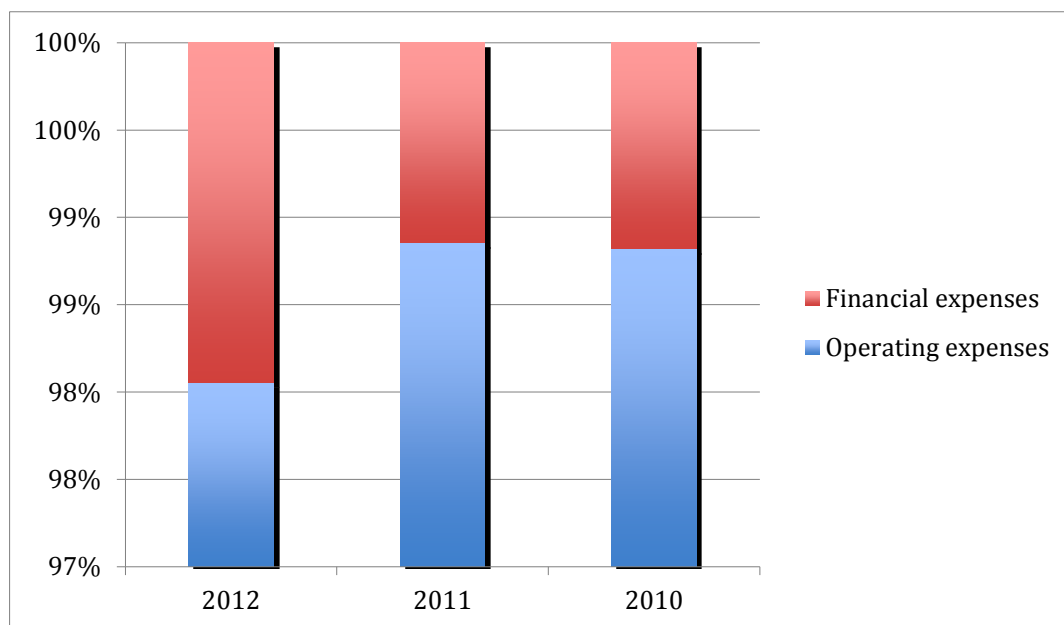
Chart 35. Vertical Analysis of Costs

Indicators (in thousands CZK)	2012		2011		2010	
Total expenses	176954	100 %	211944	100 %	174110	100 %
Operating expense	173515	98 %	209515	99 %	172060	98 %
Cost of good sold	5	0 %	11	0 %	10	0 %
Cost of service sold	87122	49 %	113095	53 %	94527	54 %
Personal expenses	69636	39 %	79209	37 %	57434	33 %
Fees	1278	1 %	1158	1 %	1070	1 %
Depreciation	9238	5 %	9596	4 %	8525	5 %

of fixed assets						
Net book value of sold good	53	0 %	568	0 %	5557	3 %
Change in reserves	584	1 %	1559	1 %	785	0 %
Others operating expenses	5599	3 %	4319	2 %	4152	2 %
Financial expenses	3439	2 %	2429	1 %	2050	1 %

Source: Own processing.

Chart 36. Vertical Analysis of Costs



Source: own processing.

Total expenses follow total sales. In 2011 they rapidly increased by 22 %, and the main factor in this increase was registered in operating expenses. In operating expenses there was an increased cost of service sold by 19 % and personal expenses increased by 38 %. This increase was connected with the new

contract in Slovakia. Patok had to hire more people abroad and also needed more material for finishing the contract. In 2012 company decreased their expenses by 17 % as a result of the contract in Slovakia. In Czech Republic, the company had the same expenses in the period between 2010 -2012. The structure of the company's expenses is similar to structure of sales. The main expenses are in what are known as operating expenses, which accounted for 98 % of total expenses, while the remaining 2 % belongs to financial expenses.

7.2.2. Profitability

Chart 37. Profitability Ratios

Profitability ratios	2012	2011	2010
ROA	1,4	13,26	5,8
ROE	1,77	22,17	8,52
ROS	3,35	16,85	6,99
Net profit margin	1,52	13,27	5,6

Source: Own processing. Data gained from Patok a.s.

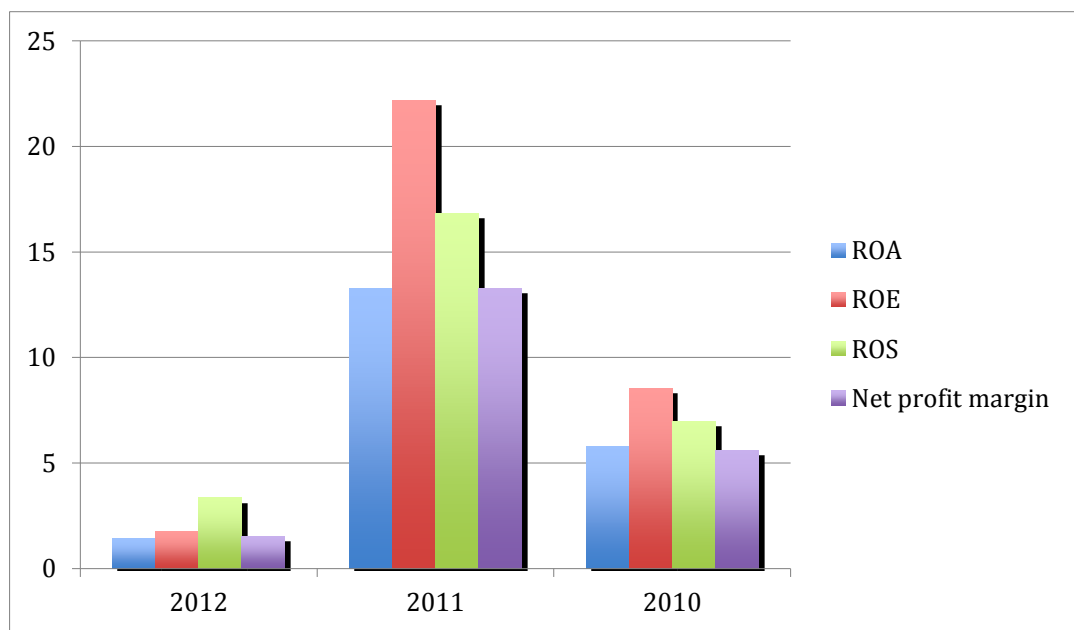
All mentioned profitability ratios gained the same development. The company saw its best results in 2011. Return on assets in 2011 was high compared to other years when 1 crown earned 13,26 % net profit. This increase was caused by increased net profit due to the contract in Slovakia. In 2011 the company earned more money on less investment and was better at converting its investment into profit. In the years 2010 and 2012 return on assets were lower because the Slovakian contract had not been agreed and the company saw lower profits.

Return on Equity gives the amount of profit earned for each dollar invested by stockholders, and it measures the efficiency at using the stockholders fund. The company performed well in 2011, but had an unsatisfactory year in 2012. The value of Return on Equity should theoretically reach minimum market interest rate. If we count the discount rate of Czech Nation Bank, which was 0.1 % in 2012, we can say that the company had favorable results in 2010 and perfect in 2011. In the case of financial leverage, we can also see positive results. Every year Return of equity is higher than Return on Assets, which indicates efficient utilization of equity.

Return on Sales gives an idea of how much sales is generated by 1 crown of profit. Recommended value should be around 6 %. This value was reached by the company in 2010, and exceeded in 2011. That was impacted by bigger profits.

Net profit margin shows amount of profit earned form sales and other operation. In the case of Patok a.s., it is really low. This means that the company doesn't have perfect control over its costs, and is also affected by competition because the company has to follow the pricing strategy.

Chart 38. Profitability Ratios



Source: Own processing.

7.2.3. Liquidity Ratios

Chart 39. Liquidity Ratios

Liquidity ratios	2012	2011	2010
Current ratios	5,84	2,31	2,93
Quick ratios	5,48	2,29	2,78
Cash ratios	3,23	1,12	1,9

Source: own processing.

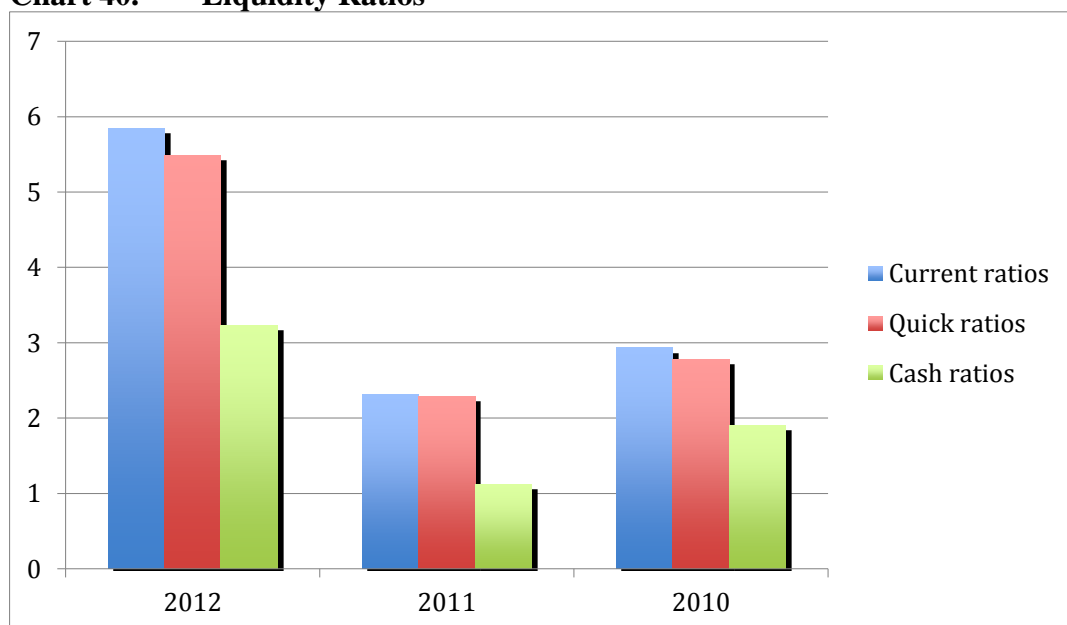
Current ratio and Quick ratio is similar, as we can see in the chart above. Current ratio tells us how many dollars of short-term assets are available for every dollar of short-term liabilities. Similarity of ratios is based on company

service/product portfolio. Company provides service rather than sells product which can be stored and influence deference between current ratio and quick ratio. Current ratios should be between 1.5 and 3, which would indicate good short-term financial strength. Every year current ratio exceeded recommend value which means that the company doesn't have a problem paying their current liabilities, but on the other hand doesn't efficiently use its current assets or sort term financing facilities. Also, it indicates a problem in working capital management.

Quick ratio is similar to current ratio but with the exclusion of inventories. Quick ratio is above recommended value, which should be between 1 & 1.5. The problem is in collecting accounts receivables, which are high and very low current liabilities. From chart 32 we can recognize that the company follows a conservative attitude, which doesn't bring as high a profit as it could.

We can see that the main problem is in cash ratio, which forms most of current ratio. The problem is that the company has too much cash on hand. Especially in 2012 when company value reached 3.23 in cash ratio and recommended value is 0.5.

Chart 40. Liquidity Ratios



Source: Own processing.

7.2.4. Activity Ratios

Chart 41. Activity Ratios

Activity Ratios	2012	2011	2010
Total asset turnover	0,95	0,99	1,05
Inventory turnover	11,53	2,08	9,23
Account receivables turnover	72,38	124,88	96,02
Account payables turnover	32,12	106,42	57,18

Source: own processing

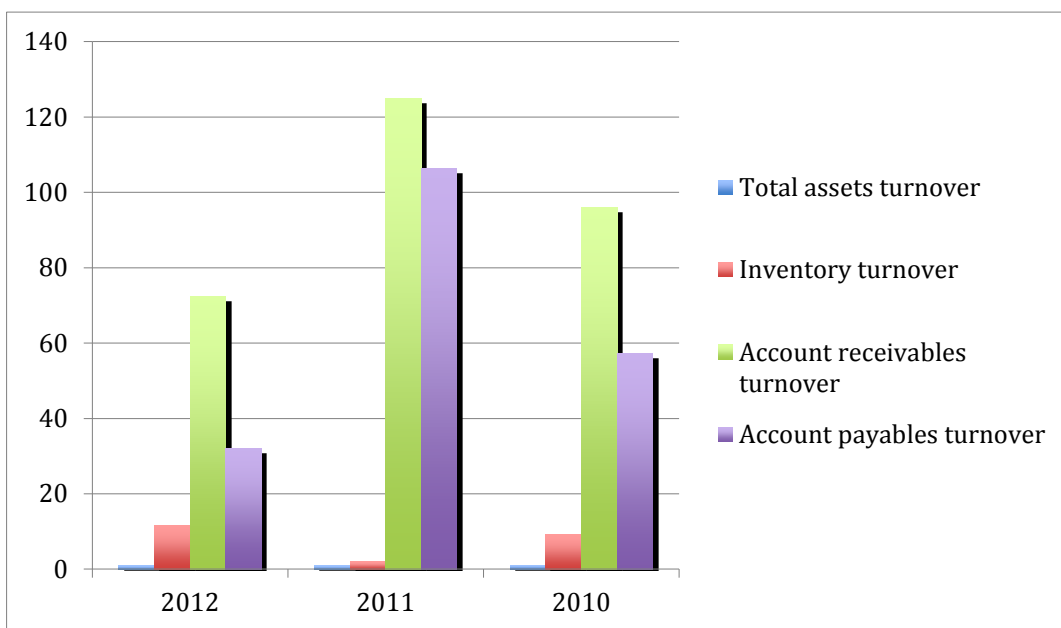
Total asset turnover is an important ratio because it affects the profitability of invested capital. In other words, it tells us how efficiently the company is using its assets to support sales. The recommended value should exceed 1. In 2011 and 2012 the company had lower value, so it generated less than 1 crown of sales for every crown worth of assets.

Inventory turnover tells how quickly the company is selling its inventory. In other words, it measures the number of times inventory is sold or used over a period of time, and how much it depends on the industry. For many companies, the industry makes an insignificant contribution and company doesn't hold much inventory.

Accounts receivable turnover indicates how quickly the company is collecting cash from its sales. The company has efficiently set up its policy. Patok a.s. collects their receivables without any problem.

Account payable turnover measures how quickly the company is paying its suppliers. In other words, how many times per period the company pays its average payable amount. With the exception of 2011, the company has favorable results. They don't immediately pay their commitments, but hold money for investment.

Chart 42. Activity Ratios



Source: Own processing.

7.2.5. Leverage Ratios

Chart 43. Leverage Ratios

Leverage ratios	2012	2011	2010
Debt to assets ratios	17,73	38,39	31,14
Times interest earned	10,95	55,77	15,59
Degree of financial leverage	1,09	1,02	1,06

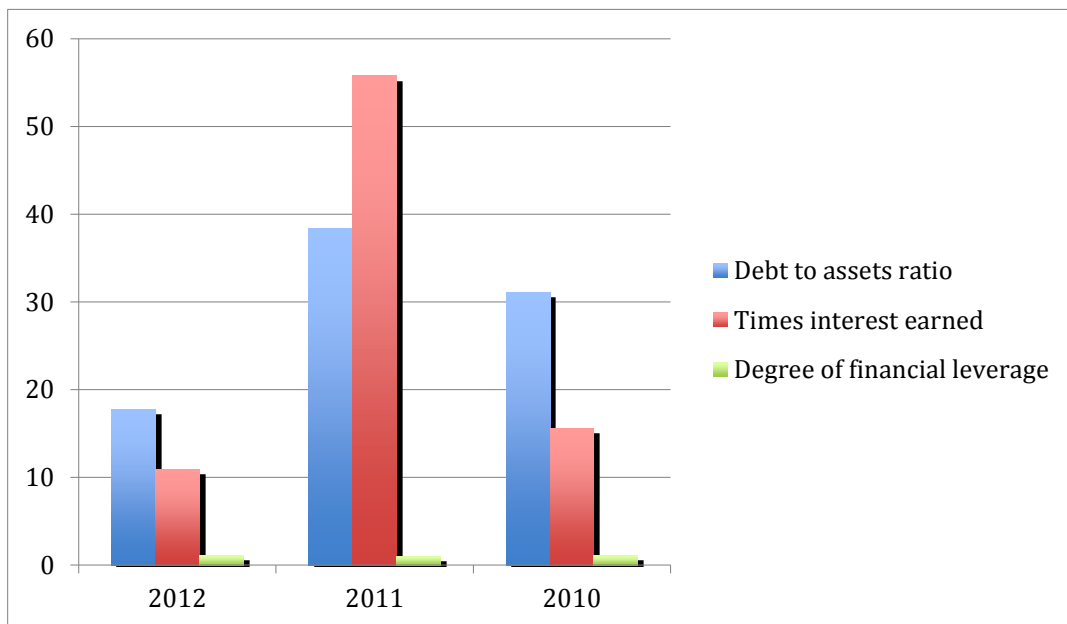
Source: Own processing.

Debt to assets ratio shows how much debt has been used to finance the company's assets. It is a very broad ratio because it includes long-term, short-term debt, as well as all types of both tangible and intangible assets. We can see that this company behaves conservatively. The company finances its activity by equity, which is less risky. Patok a.s. protects itself before potential creditors demand repayment of debt. The higher proportion of investment by debt was in 2011 where 38.39 % of company assets were financed by debt. In 2012 financing by debt decreased to 17.73 %.

Time interest earned measures the ability of the firm to meet its fixed interest payments. In other words, how many times annual interest expenses are covered by income before interest and taxes. Company has good ability of business to repay its interest and debt. However, it doesn't take advantage of debt, which can be used for other projects.

Degree of financial leverage measures the company's relationship between interest paid and company performance. From the chart 36 we can see that the company is not sensitive to changes in EBIT as a result of change in debt because 1 crown change in earnings before taxes cause change by 1,05 earning before taxes and interest.

Chart 44. Leverage Ratios



Source: Own processing.

7.3. Resourced based view

Resourced based view uses the resources and capabilities as the main tool for reaching profitability and setting a business strategy. The environment is most likely to change. On the other hand, company resources and capabilities tend to be stable, secure and allow Patok a.s. to produce products or services at a lower cost,

or better products at the same price as competitors, gaining a competitive advantage.

According to financial figures shown in the previous chapters, Patok a.s. saw a 76% decrease in profit after taxes, which represents a total of 2,705,000 CZK. This decrease was caused by finishing the big contract in Slovakia. For the company, it is a significant sign of which way they should go. Investment in the Slovak and other foreign markets, as well as maintaining the big companies which are considered crucial and should improve total revenues for Patok a.s. Total revenues in 2012 were 177 208 000 CZK. There was a 28% decrease detected in revenue compared with the previous period.

The human resources department is represented by more than 100 employees, all from the Czech Republic and Slovakia. The performance of workers is of utmost importance in service-based businesses. This is the reason why Patok a.s. invests in training programs for their employees in order to prepare them for a career in the company. The company believes that people are crucial for success, and only satisfied employees can be efficient. The company would not have achieved such success without a reliable management team consisting of 23 members.

Regarding tangible resources, Patok a.s. owns cars which are crucial for business, buildings, and land in two countries. In total, property, plant and equipment account for 182 762 000 CZK , from which net tangible assets after depreciation represents 92 983 000 CZK.

Patok's a.s. intangible resources are determined by its very strong brand image, which is built on values of preservation, protection and promoting the natural and human environment.

Another important asset of the company is its own culture. It started as a small family business with one car. As the company grew, the owner employed people who could follow the spirit of company. As a result, the company had very close relationship among its employees and management. Although the company has been growing steadily, it has kept its culture of close relationships among employees and customers, as well as its personal touch. Employees are treated in

the best possible way and management tries to make them happy, and that is reflected in the results of the company.

Capabilities

The Organizational capability of Patok a.s. is that they know the market and it is one the best service providers in this field in Czech Republic. When it comes to targeting, they know exactly where they should focus their efforts in order to win new contracts. Their level of competence is based on three main factors: economic, social and environmental success. They care about environmental issues and have started their own projects to help the environment and be socially responsible. Their customers appreciate this effort. They recognize that Patok a.s. is not just a money making business, but that the people who run the business are passionate and know how to satisfy their customers, employees and also how to care about the environment. The core competence of Patok a.s. is its culture. It stands out from other companies in this regard. The atmosphere is calm and easy. The top managers stay in contact with employees and care about their needs. The projects for the environment bring added value to the company. The added value is important for customers because they can see that the company really cares about ecology, and can see their work fulfilled.

All the factors mentioned above enable Patok a.s. to offer a unique and special service due to its highly-trained staff and well-developed corporate culture. These Features are important for the company because they differentiate from others companies in this business.

8. SWOT Analysis

SWOT analysis of the company has to evaluate internal and external factors, which can affect it either negatively or positively. In order to get suitable SWOT analysis, internal and external strategic factor analysis summaries are needed. According to internal and external factors can be made SWOT analysis, which will comprise relationship and interaction of all parts of SWOT analysis.

Chart 45. Internal Strategic Factors

Internal strategic factors	Weight	Rating	Weighted score
Strengths			
Business stability	0,15	3	0,45
large portfolio of service	0,05	5	0,25
Strong position on domestic market	0,15	4	0,6
Skilled labor	0,15	4	0,6
Small number of owners	0,05	5	0,25
Modern technology	0,1	3	0,3
Financial stability	0,05	4	0,2
Weaknesses			
High cost of service	0,15	3	0,45
Vague concept of marketing and promoting	0,05	2	0,1
Dependence on key employees	0,1	4	0,4
Total weighted score	1.0		3,6

Source: Own processing.

Strong position on domestic market, skilled labor and business stability are the strengths which have a positive impact on Patok a.s. The company handles these areas of their strengths without any significant problems, and as a result, the company has great potential for growth. Their strong position on the domestic market is gained through contracts with VIP companies, which are mainly located in the north of Czech republic, and Patok have easy access to those companies. It is also gained through quality of service. As well as a strong position on the domestic market, we consider skilled labor to be crucial. Without skilled labor, the company provides quality service standard on high level. Stability of business is

very important but the company can take better advantage of it. Sales managers should find large buyers and make long-term contracts with them.

The company's weaknesses are cost of services, marketing and promotion, and dependency on important employees. The problematic part of the company is cost of service. Equipment, which is necessary for business, is bought from Germany, which is leader in these technologies. The company focus on high level of technology, which may bring problems with capital because new technology is high costly, but on the other hand brings a competitive advantage that attracts more potential customers. One of the most underestimated areas in the company is marketing and propagation. They don't have any precise marketing strategy. Propagation activities are organized randomly without any concept. The company should focus on propagation and set up a new propagation strategy. Company results depend on key employees. The company is trying to promote existing employees to management positions. This strategy is the appropriate way to go to prevent losing key workers.

Chart 46. External Strategic Factors

External strategic factors	Weight	Rating	Weighted score
Opportunities			
Potential growth of company	0,1	3	0,3
New markets	0,15	2	0,3
Increasing domestic market share	0,15	4	0,6
New technology	0,05	3	0,15
CSR	0,05	3	0,15
Threats			
Competitors	0,1	3	0,3
Loose of VIP clients	0,15	4	0,6
Increase of inputs prices	0,15	3	0,45
Weather	0,1	3	0,3
Total weighted score	1.0		3,15

Source: Own processing.

Patok a.s. has great potential for growth. More and more industries require external companies to take care of problematic parts of their business, which they consider as risky. Patok a.s. works in area of cleaning and dealing with dangerous

waste and has the potential to supply it to companies that want to shift the responsibility. Great opportunities are available through foreign expansion. This step is time and capital demanding, but as we saw, it also brought increase in profit to the company. The company doesn't take advantage of the global market. Management would rather put its efforts into the domestic market and significantly increase domestic market share.

Concerning the threats that affect the business, the most significant are losing key customers, increased market share of competitors, and increasing prices of input. The company relies on good relationships with key customers and stays in touch with them frequently. Sales managers offer them new types of services and better conditions in order to keep key customers. The threat of competitors is very high. Competitors drop their prices in order to attract more customers. Patok a.s. has to monitor that behavior in order to avoid losing customers, even though they are perceived as relatively expensive company with high standards of quality. These dumps can significantly harm Patok a.s.

For a better overview, SWOT Matrix is used as follows:

Chart 47. SWOT Matrix

Internal Factors	STRENGTHS (S)	WEAKNESSES (W)
	Business stability large portfolio of service Strong position on domestic market Skilled labor Small number of owners Modern technology Financial stability	High cost of service Vague concept of marketing and promoting Dependence on key employees
External factors		
OPPORTUNITIES (O)	SO STRATEGIES	WO STRATEGIES
Potential growth of company New markets Increasing domestic market share New technology CSR	Export to new markets	Focusing on cheaper financing of inputs on foreign market
THREATS (T)	ST STRATEGIES	WT STRATEGIES

Competitors Loose of VIP clients Increase of inputs prices Weather	Increase market share on domestic market	Suitably treat VIP clients and provides them better conditions
---	---	--

Source: own research

Corporate strategy

According to Directional Policy matrix Patok a.s. is located in area of Growth by conglomerate diversification. The position was given by a combination of being in a medium attractive industry, and its strong position in that industry. The strong position of the company shows that the company itself is healthy and should focus on concentration via horizontal integration. The best way to apply that strategy is to penetrate new markets by providing the same services. They would use their key success factor, which is the extraordinary company culture, which they use to achieve great results in operational strategies. The future attractive areas to expand would be neighboring countries, apart from Slovakia where Patok already provides their services, as well as China and the Middle East. I would recommend opening a new subsidiary in China in order to build up new headquarter for further expansion. This would be a way of extending Patok's good name all over the world and make steps to achieving success worldwide. They could accomplish that through internal development regarding their financial stability.

Business strategy

A desirable future condition in my eyes is that the company promotes itself as a prestigious supplier of service with reasonable prices for cleaning, dealing with dangerous waste and trenchless technology. The company is one of the most convenient companies when dealing with dangerous waste. On the other hand, the company should be more competitive in the field of trenchless technology, which is the future of this business.

Because Patok a.s main competitive advantage is its quality of work and culture, which allows them to provide such great service to customers, they shouldn't lower the price of the service in order to get a bigger market share. They

should focus more on differentiation, and trying to make their services even more unique.

The best way to achieve that is to find the best suppliers with lower prices in the area, despite the prices they set for them. They focus on quality as well as quantity. They should also not lose their reputation as a quality provider with well-trained employees, and continue training in new areas. They should adapt to the demands of new areas of trenchless technology where the company could gain bigger margins without losing their standards of services.

Source of competitive advantage on the demand side would be built through providing better contracts and benefits for loyal customers. Providing special gifts would provide after sale service to their customers. They also should promote their brand in the world through sponsorship of events. That way people would know about them and the company can use the power of word of mouth.

For the company, it would be favorable to adjust and stabilize structure and function of internal processes and ensure their application to internal directives in order to avoid risks and losses which they are connected with. Implementing a new IT system within the company as well as outside can eliminate potential risk. These suggestions lead to better planning and integrating of processes such as purchasing, production, and realization. They also bring a precise level of control over fulfilling the contracts, and also reveal blind spots, which can be eliminated for better efficiency.

In the field of trenchless technology Patok a.s. lags behind its competitors. It is inevitable that they will have to use benchmarking. Patok a.s. provides trenchless work only over a short time period, compared to competitors. Patok a.s. should learn from the best players at market and use it as the base for company development in order to match quality with a reasonable price. The nature of trenchless technology progress should be research and development, while keeping pace with the technological requirements of customers. Customers are specific subjects who have a clear vision of projects with precise requirements.

An important step for expanding business abroad is to stabilize sales on 2 thousand CZK in 3 years. Assuming profit levels are satisfactory, the company can focus on global expansion. This step would bring new opportunities for the

company, mainly by gaining new technologies, lowering costs and finding new important customers.

IV. Discussion

This report presented the facts that Patok a.s. is a healthy company operating in a very strong position in a middle attractive industry. Competitor's performance have the same efficiency as Patok a.s. but this company puts a lot of effort in to generating a higher net profit and keeping continuous growth. Moreover, I consider competition in this industry as a crucial aspect of success and lowering the margin is becoming more and more inevitable. Therefore, my suggestion is to **grow to another market.**

Patok has differentiation advantage in its corporate culture and skilled labor. It should take advantage of its managers and workers skills as well as the spirit of the company to continue in its successful performance. Since a key success factor is pricing strategy, the company should focus on it and try to decrease its costs and expenses. This can be done by increasing levels of inventory management and increasing efficiency of workers. An unconditioned company has to keep their standard of service or even increase it. Perfect service is a crucial factor for choosing a company and offering potential contracts. As well as all this, it is essential to chose strategic suppliers and follow a proper marketing strategy.

Patok a.s. is aware that the current trend is that companies demand trenchless technology and this part of the business has become very important in developing companies, and can provide bigger profits because of the higher margins. I think the company should pay more attention to this trenchless technology, even though that they don't have as much experience as the leaders of trenchless technology. Benchmarking would be a good choice of inspiration.

Patok's future is often questioned by top management in the company. The results are satisfactory in recent years. On the other hand, 2011 was the year of biggest success due to the foreign contract. I would suggest that the company expand to China or the Middle east where there is huge potential for Patok a.s., and the company wants to be considered as a growing company, so expanding to new markets seem the proper way to go because the condition will not change anytime soon.

V. Conclusions

This diploma thesis consists of two parts. The first part describes the theoretical base about the chosen topic, while the second part explains the practical utilization of learned information according to this theory.

The literature review explains the idea of strategy and strategic decision, as well as providing theoretical knowledge, which is necessary for breaking down the company.

The Empirical part of this diploma thesis is divided into four important categories: Characteristics of enterprise, Analysis of industry, External environmental analysis, and Internal environmental analysis.

In the first part, all the basic information about the company is given; what is the core of the provided service, the portfolio of offered services, aims of the company and ways of achieving them.

The second part briefly devotes trends of business, situation on market and historical development.

The external analysis consists of three parts. In the first part I used PEST analysis for a better overview of different macro environmental factors that Patok a.s. has to take into consideration. Patok a.s. has many obstacles and opportunities in their way. From a political point of view, one problematic part is GDP, which is in mild recession and doesn't overstep the boundary of positive numbers. Another political obstacle was the exchange rate and its fluctuation due to the fact that the Czech national bank purposely devalued the Czech crown toward Euro in order to support exports. Czech companies can rely on stable inflation. The political situation has undergone dramatic changes as a result of numerous corruption scandals. The government was dismissed and replaced by a new one, which is led by Prime Minister Bohuslav Sobotka. There is also the problem of the education system in Czech Republic. More than 75 % of the population at the age of 18 studies at University and this has caused a decrease in the quality of education. Industry analysis mentioned Porter's five forces. The result indicates that this business is rather unattractive due to huge levels of competition, pricing strategy and the strong bargaining power of buyers.

Intra industry shows three basic parts. The first part describes the competitors and divides competitors in clusters according to price of the service and provided

service scope. This description points out straight competitors (Sezanko, Zepris, Atalian KAF facility) and helps us to understand the structure and importance of potential competitors such as Feko and Dvořdík s.r.o.

The second part analyses competitors even more deeply. They are broken down and compared. Segmentation of Patok a.s. is the last part of intra industry analysis, which pointed out that the most profitable product is trenchless technology due to higher margins, the most profitable market is seen in Eastern Europe due to the potential for new customers and economic growth, and the most profitable customers are corporations which provide long term relationships or big contracts.

With regard to the summary of internal analysis, the most important parts are the value chain, Financial analysis and Research based view.

Patok a.s. focuses on services related to dangerous waste where they gain a majority of profit. The problem in this particular business is high costs. This was especially evident in 2012 when the company had to deal with price fluctuations of oil. The company has fixed prices which are set up in advance. The enormous increase in the price of oil in the Czech market causes a decrease in profit in 2012. Due to price increases of oil, the company lost part of its profit margin.

Marketing and sales work mainly according to tenders. Sales managers obtain 70% of all company contacts through tenders. Sales managers have to permanently search for new potential clients and maintain existing customers. The remaining 30 % are obtained by customers themselves. Those customers contacted Patok a.s. on their behalf. The company should focus on promoting trenchless technologies. In this area of business there are high profit margins, which would help the company with long term sustainability.

A very important part of the company is people, especially the key employees. Company success leans on them. The company has skilled labor that gets the chance to be promoted by achieving excellent results and showing loyalty to the company. The company prefers to promote from within, which is a strategy I consider to be very important. First of all, workers have motivation to provide best work in order to be promoted, and second of all, the company doesn't have to find managers who need to be walked through long training processes and company spirit.

According to financial analysis results, the company is doing well in the period observed (2010-2012). All profitability ratios have positive numbers, which indicates that the company was profitable during this time. The most significant year for the company was 2011 when they reached a profit of over 33,000,000 CZK. This profit was caused by the Slovakian contract and results are mainly because of trenchless technology, which was used in Slovakia. That technology provides huge profit margins and the company should focus its efforts on winning tenders in this branch of business. The rest of the financial ratios have a similar trend as well as profitability with the most significant year being 2011.

The last part of Internal analysis is devoted to resources and capabilities necessary for achieving profitability and setting the business strategy of the company. The company has perfect potential in tangible assets. They also use new technology in cars in order to increase efficiency of services. The key factors are hidden in intangible resources as the most important is the culture of the company, which provides opportunities for workers, and unifies their aims with the company's aim, which I consider to be crucial. Last but not least, a key resource is employees. They operate on a high level and they are skilled in their specializations. The capabilities of the company can be divided into areas of economic, social and environmental. All of them are very important to the company and enable them to provide unique services.

Their strong position on domestic market, skilled labor, and business stability are the strengths of company, which have positive impact for Patok a.s. The company handles these areas of their strengths without any significant problem and because of that, the company has great potential for growth.

Company weaknesses are cost of service, marketing and promotion of the company, and dependency on important employees. The problematic part that affects profitability is company reliance on high technology. This attitude carries a significant increase in costs.

The company has great opportunity for growth. More and more industries require external companies to take care of problematic part of their business, which they consider as risky and Patok a.s. profits from this trend.

Concerning the threats that affect the business, the most significant is losing key customers, increased market share of competitors, and increasing prices of input.

VI. References

- Johnson, G., Scholes, K., Whittington R. (2008). *Exploring corporate strategy*. Harlow, Person Education. ISBN: 978-0-273-71191-9
- The Economist. (2013, January). *Staying on Top*. Retrieved January, 2014, from The Economist: <http://www.economist.com/news/business-books-quarterly/21569368-staying-top>
- About. (2012, March). *Competitive Advantage*. Retrieve January, 2014, from The About.com: http://homebusiness.about.com/od/growing/a/comp_advantage.htm
- McGrath, R. G. (2013). *The End of Competitive Advantage: How to Keep Your Strategy Moving as Fast as Your Business*. Harvard Business Review Press. ISBN: 978-1422172810
- Conlin, D. W. (2011). *The Global Environment of Business*. SAGE Publication Inc. ISBN: 978-1-4129-5028-2
- MindTools.com (2012, January). *PEST analysis*. Retrieved January, 2014, from Mindtolls.com: http://www.mindtools.com/pages/article/newTMC_09.htm
- Dedouchová, M. (2001). *Strategie podniku*. Prague, C.H. Beck. ISBN: 80- 7179-603-4
- Aguilar, F. J. (1967) *Scanning the business environment*. New York, Macmillian
- Exforsys. (2010, May). *PEST Analysis*. Retrieve January, 2014, From Exforsys: <http://www.exforsys.com/career-center/strategic-planning/pest-analysis.html>
- Useconomy. (2011, July). *Economies of scale*. Retrive January, 2014, from Useconamy: http://useconomy.about.com/od/glossary/g/economy_scale.htm
- SearchITChannel. (2013, March). *Distribution channel*. Retrive February, 2014, from SearchITChannel: <http://searchitchannel.techtarget.com/definition/distribution-channel>
- Keřkovský, M., Vykypěl, O. (2002). *Strategické řízení*. Prague, C. H. Beck. ISBN: 80-7179-578-X
- Mallya, T. (2007). *Základy strategického řízení a rozhodování*. Prague, Grada. ISBN: 978-80-247-1911-5
- Russell, D. (2013). *Lectures of business strategy*.
- Wernerfelt, B. (1984), *The Resource-Based View of the Firm*. Strategic Management Journal
- Porter, M. E. (1985). *The Competitive Advantage. Creating and Sustaining*

Superior Performance. New York, Free Press. ISBN: 978-0743260879

BizBiz.(2013, May). Financial statement of Patok a.s.. Retrieve May, 2014, from BizBiz.cz: <http://www.bizbiz.cz/v2/firmy/795511/patok-a-s>